Staff Report No. 2020-49 **August 17, 2020**

August Market Update
Corn, Soybeans, Rice, and Cotton

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WASDE Summary

The USDA's August corn and soybean crop estimates were based on conditions as of August 1st- before the August 10th derecho ripped through the central Corn Belt. The USDA says any storm damage will be reflected in future reports.

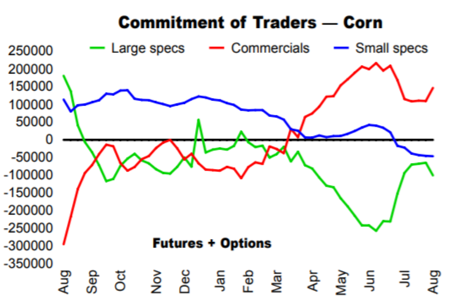
This month's 2020/21 U.S. corn outlook calls for larger supplies, greater feed and residual use, increased exports, and higher ending stocks. Corn production is forecast at 15.3 billion bushels, up 278 million from July projections. The season's first survey-based corn yield forecast, at a record 181.8 bushels per acre, is 3.3 bushels higher than last month's trend-based projection. Increases in both feed and residual use projections were based mostly on expectations of a larger crop and lower prices. Exports are up, reflecting U.S. export competitiveness and relatively low world market prices. With supply rising more than use, ending stocks have been raised 108 million bushels to 2.8 billion. The season-average corn price received by producers has been lowered by $0.25 to $3.10 per bushel.

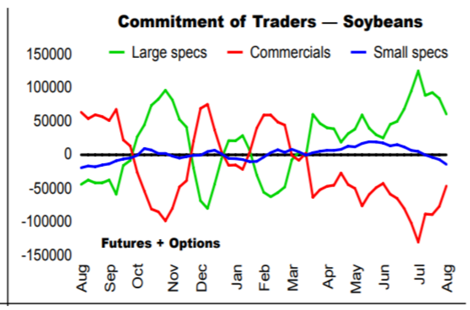
U.S. soybean supply and use changes for 2020/21 include lower beginning stocks and higher production, crush, exports, and ending stocks. Beginning stocks are reduced on a small increase in 2019/20 soybean crush. Soybean production is forecast at 4.425 billion bushels, up 290 million on higher yields. Harvested area is forecast at 83.0 million acres, unchanged from the July projection. The first survey-based soybean yield forecast of 53.3 bushels per acre is raised 3.5 bushels from last month and is 5.9 bushels above last year's level. Soybean supplies for 2020/21 are projected at a record 5.1 billion bushels, up 13% from last year. U.S. soybean exports are raised 75 million bushels to 2.13 billion on increased global import demand, increased supplies, and lower prices. Soybean crush is also raised, mainly reflecting increased soybean meal exports. Soybean ending stocks are projected at 610 million bushels, up 185 million from last month. The U.S. season-average soybean price for 2020/21 is forecast at $8.35 per bushel, down $0.15 from last month. The soybean meal price was revised downward by $10.00 at $290 per short ton,.

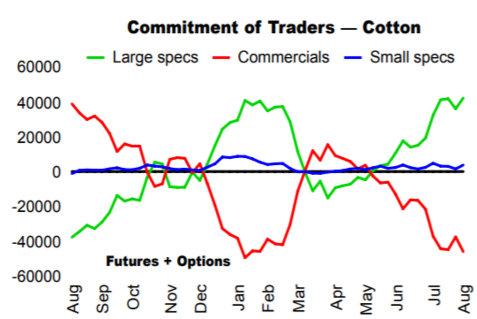
The outlook for U.S. rice in 2020/21 this month is for lower supplies, unchanged domestic and residual use, reduced exports, and higher ending stocks. Supplies are reduced as lower production is only partially offset by increased beginning stocks and imports. The initial survey-based production forecast for the 2020/21 crop year reduced production from the previous forecast by 2.6 million cwt to 218.1 million, all on lower yields. The average all rice yield is forecast at 7,600 pounds per acre, down 89 pounds from the prior forecast but up from last year's 7,471 pounds. Long-grain production is forecast at 159.1 million cwt and combined medium- and short-grain production is forecast at 59.0 million. Projected all rice imports are raised 1.4 million cwt to 36.0 million as the robust import pace seen in 2019/20 marketing year is expected to moderate only slightly in 2020/21. Imports for 2019/20 are forecast at a record 36.7 million cwt as they are also raised this month on continued large Asian shipments. All rice exports for 2020/21 are lowered 1.0 million cwt to 97.0 million with all of the reduction for long grain on continued South American competition in Western Hemisphere markets. Projected ending stocks are raised to 44.3 million cwt, up 0.5 million from last month and 44% higher than last year. The U.S. season-average long grain price for 2020/21 is forecast at $11.60 per cwt. Southern medium grain is forecast at $11.50 per cwt.

This month's 2020/21 U.S. cotton outlook includes higher beginning stocks, production, and ending stocks, and a decline in consumption. Production for the 2020 crop is raised 3% to 18.1 million bales, on NASS's first survey-based production forecast. The survey indicates lower harvested area and higher yield compared with last month's expectations. Abandonment is expected to rise to 24%- compared with 16% in 2019. With reduced harvested area in the Southwest, U.S. yield is projected at a record 938 pounds per acre, 14% higher than in 2019. Beginning stocks estimates have been raised by 100,000 bales as lower than expected 2019/20 U.S. mill use offsets an upward revision in exports. Expected 2020/21 mill use is reduced 100,000 bales, while ending stocks are 800,000 bales higher. The season-average price for upland cotton is forecast at $0.59 cents per pound, unchanged from the previous month.

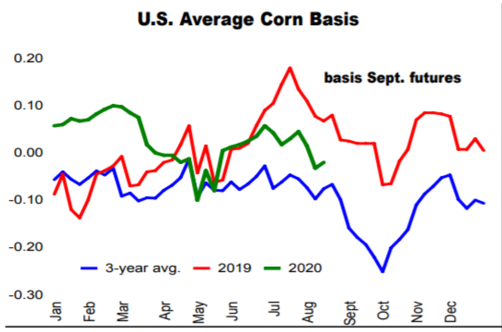
Commitment of Traders Report, Tuesday, August 11, 2020

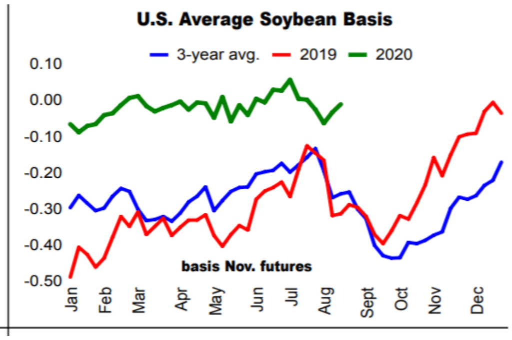


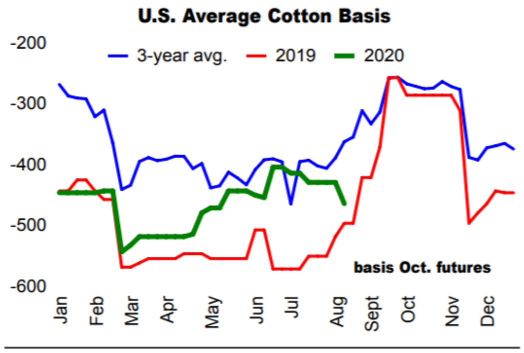




Cash Market Basis Charts August 12, 2020





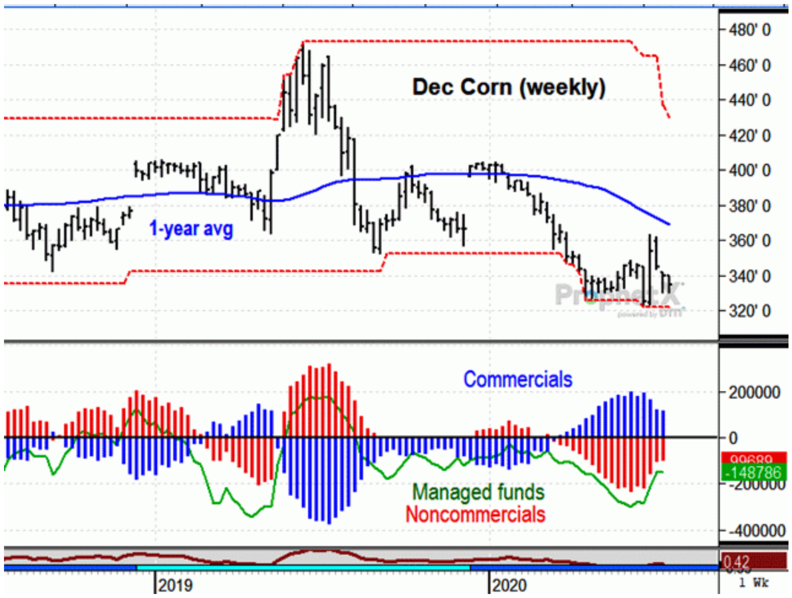


Corn

Prior to the release of August's WASDE, market observers were posing an interesting question: will corn's harvest low come early in 2020? The USDA's first estimate of U.S. ending corn stocks in 2020/21 was 3.32 billion bushels, based on a planting estimate of 97 million acres from information elicited in the USDA's March survey of planting intentions. If true, May's ending stocks-to-use ratio of 22% would have been the highest in 28 years and points to cash corn prices near $2.50 a bushel, a much more depressed situation than the USDA's average farm price of $3.10 to $3.20 per bushel. Not surprising, futures funds were net short over 200,000 contracts of corn at the time of the May WASDE report and continued to increase net shorts after the report, reaching a peak of 301,873 as of June 9th.

In July's WASDE, the USDA lowered new corn crop estimates from nearly 16.0 billion bushels to 15.0 billion and reduced the estimate of ending stocks from 3.32 billion bushels to 2.65 billion, ~18% of annual use. The USDA's lower planting estimate of 92.0 million acres was the prime motivator in this reduction. July's lower ending stocks-to-use ratio of 18% raises the expected cash corn price to $3.00, within 6 cents of where DTN's National Corn Index closed Thursday evening (July 23).

This chart shows commercials have responded favorably to December corn prices below $3.40 and funds remain significantly net short. The eventual harvest low in 2020 may not be far away and could come sooner than usual. (DTN ProphetX chart).



Market fluctuations are a given and corn prices are influenced by many things not covered on the USDA's balance sheet. This year, it is easy to see the bearish effects of a global pandemic on corn prices. Some of that translated to lost demand but a lot of it simply made people cautious, discouraging investors from participating in U.S. agricultural markets. Because we did not have the normal bullish spring/early summer influence in corn this year, some observers suspect the usual bearish turn towards fall harvest will be somewhat muted. Much of the potential bearishness of the market was already been spent, largely by noncommercials in early June.

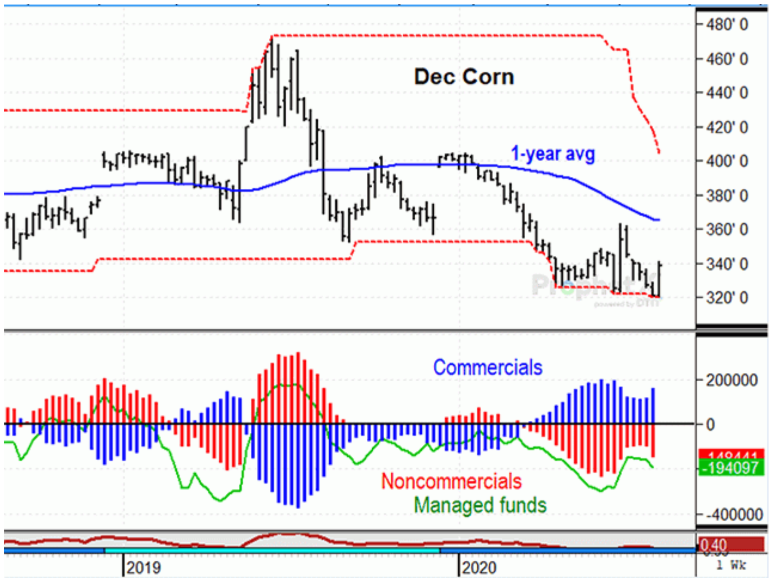
Weather will have the most to say about how this turns out, but it is possible we could see a large corn harvest near the 2016-17 record of 15.15 billion bushels or more without much more price erosion. As mentioned above, the USDA's current crop estimate suggests a $3.00 cash corn price and we are already there as a national average.

Not only did the USDA trim the new crop corn forecast, they also confirmed on July 17th the second-biggest corn purchase on record. The market may be unphased by all the news. The USDA confirmed that China made the second-largest, single-day U.S. corn buy on record. Of the 1.36 million metric tons of corn purchased, 765,000 million metric tons is old crop. However, the market seemed unfazed by the news, as corn prices turned lower after opening higher. Rumors of big purchases from China have been surfacing for the past two weeks. There were renewed doubts about China buying not just to meet Phase One but efforts to work on Phase Two.

The August WASDE report was bearish for both corn and soybeans. A record corn crop estimate of 15.28 B bushels and the highest estimate of U.S. ending corn stocks since the 1980s was clearly bearish. USDA lowered its average farm price estimate to $3.10. Historical cash corn prices for the 19% ending stocks-to-use ratio pointed to cash prices in the upper $2.00s. However, December corn finished up 3 3/4 cents on the day of the WASDE release.

Interestingly, post-report, timely rains that had been showing up for everyone but western Iowa stopped. The extended forecast turned dry and even the seven-day forecast did not show much chance for moisture after August 14. It turns out there still is a weather risk for row crops, and on August 13 (one day removed from the WASDE release), December corn jumped up over 11 cents and November soybeans were up over 16 cents.

At this point, the numbers are overwhelmingly bearish for corn, even with the dry forecast, but the story is not over yet. Because managed futures funds were complacently net-short 194,097 contracts as of August 4, they now appear under pressure to liquidate and that gives corn prices a little bullish hope in a tough bearish market. Managed futures funds have been comfortably net-short in corn for most of 2020 but were challenged this week by a dry forecast that threatens to trim USDA's record yield estimate. (DTN ProphetX chart)



Several agriculture news outlets reported that President Trump said Phase Two of the trade deal is "unlikely and that the relationship with China has been severely damaged." In the short-term, the market is trading weather, but the trade is unimpressed by the large purchase of corn from China because many more of those purchases are still needed. China has indicated that they want to purchase more than they did on July 17th just to get the demand picture back to normal. The technical side of the corn market seems to be pointing to lower corn prices, which means the high for the corn market may already be in.

China sold all of the 4.014 million metric tons of corn from its state reserves put up for auction this week (ending July 31st) at an average price of ¥2,037 ($291) per metric ton. That is a ¥20 gain (1%) in prices from last week and marks the highest price in 10 weeks of auctions. In total, nearly 40 million metric tons of corn have been sold since the auctions began. Chinese demand for the grain is high as domestic supplies are tight and prices high. This lends support that China will need to increase its corn imports.

Reuters is reporting that China is planning to auction rice and wheat to feed users. Knowledgeable sources indicate that China plans to sell rice and wheat from its state reserves to animal feed producers. The sources indicate that around 10 million metric tons of rice could be sold through state firms directly to feed makers rather than regular auctions to the broader market. This comes as Chinese corn prices have surged more than 20% to five-year highs as China has slashed its corn reserves and extensive flooding and cool conditions in key growing areas have raised concerns about this year's crop.

Corn demand has been a mixed bag as of late. After steady recovery in ethanol production, the last three weeks saw weekly production level out. Production levels averaged 932 thousand barrels a day over the period. While sharply higher than the 537,000 barrels seen at the end of April, the production level sits 10.1% lower than over a similar period last year. Current USDA estimates of corn use for ethanol sit at 4.85 billion bushels for the marketing year. Through June, corn used in ethanol production totaled 4.02

billion bushels. Based on EIA weekly ethanol production estimates, corn consumption for ethanol as of July 31 is approximately 4.43 billion bushels. The refinery-operating rate stalled at roughly 80%, yet gasoline stocks continue to grow. Gasoline demand remains weak despite being in the summer driving season. If ethanol production levels match totals seen in July over the next month, corn use for ethanol production comes in 10 to 15 million bushels below the USDA's estimate. If ethanol production falls back due to lower gasoline demand, corn use for ethanol will likely fall further.

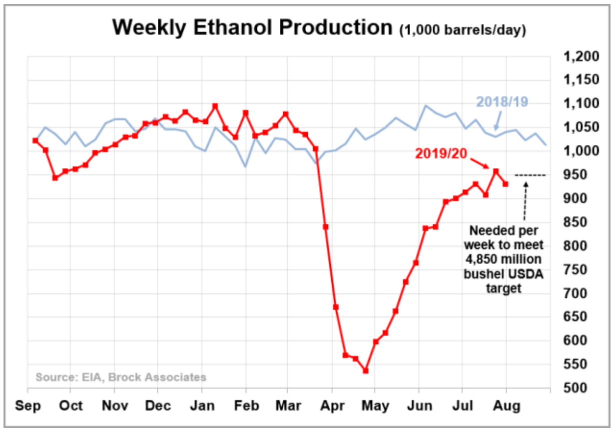
Export sales to China dominated the positive news for corn demand. Most of the large purchases are for the 2020/21 marketing year. Export sales for the next marketing year sit near 435 million bushels with China accounting for 225 million bushels of those sales. While a positive development, Chinese buying is rapidly approaching the 283 million bushel level set for their tariff rate quota (TRQ) on corn imports from a country. Purchases above the TRQ level see tariffs jump to 65%. It seems doubtful China would buy more U.S. corn under higher tariff levels given Chinese stocks supposedly sit near eight billion bushels. Flooding, armyworms, and uncertainty regarding corn stock quality in China all support recent purchases and could lead to an increase in the quota level. If all of those sales to China come to fruition next marketing year, the prospect of reaching USDA's projection of 2.15 billion bushels in 2020/21 looks much brighter if a tad optimistic in the current economic environment.

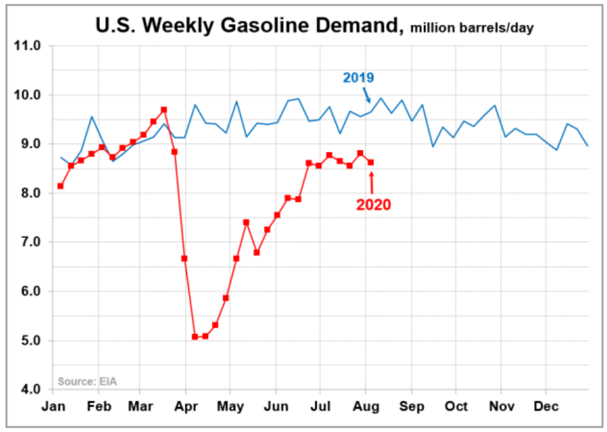
Supply considerations drove futures prices lower as the market priced in a large crop. The relationship between the seasonal average farm price and the stocks-to-use ratio provides insight into the question of market expectations of crop size. The closing futures prices for corn on August 7th indicated a marketing year farm price of \$3.19 per bushel. For this analysis, a \$3.19 average farm price relates to a stocks-to-use ratio of 21.3% for the 2020/21 marketing year.

The recent projection for corn use sits at 14.625 billion bushels. The possibility of corn consumption at the projected level remains quite uncertain. By assuming the projected USDA total use for the next marketing year, a stocks-to-use ratio of 21.3% infers ending stocks for the 2020/21 marketing year at 3.12 billion bushels. Using beginning stocks of 2.285 billion bushels and an import level of 25 million bushels during the next marketing year, the corn crop implied by the current market price equals 15.43 billion bushels.

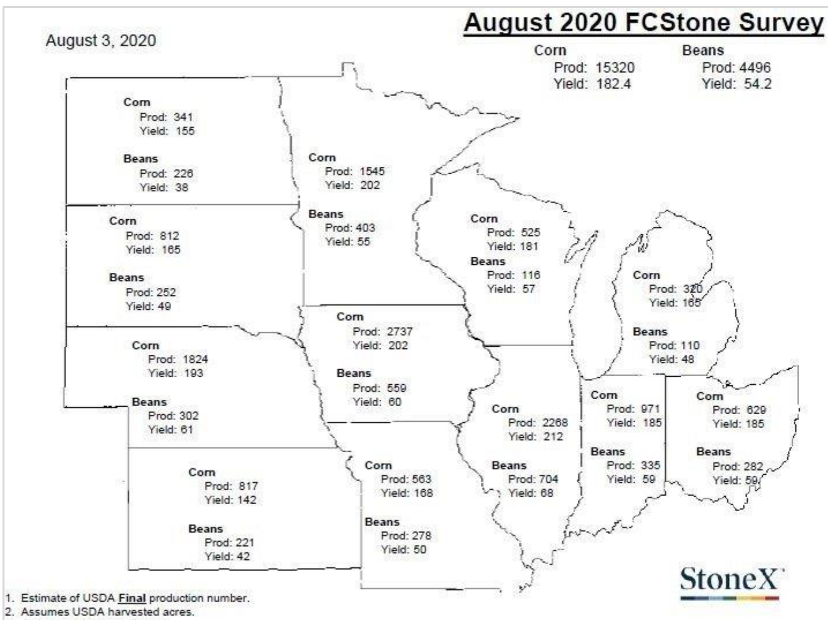
The encouraging news in EIA's weekly update was on ethanol stockpiles: Total stocks of 19.8 million barrels per day were down sharply from 20.6 million the prior week and down 16.4% from a year ago. It is also the lowest weekly total since late December 2016. Crude oil stockpiles of 536.6 million barrels were up from 531.7 million the prior week, and up 20.6% from a year ago.

Reported on August 5th, ethanol output slipped to 931,000 barrels per day, down from 958,000 the prior week. The four-week average is down 10.7% from a year ago. While production has bounced back sharply from the spring pandemic low of just 537,000 barrels per day, output appears to have plateaued for now at around 90% of year ago levels. That is a better recovery than many industries, but it still indicates a lasting contraction. Gasoline demand has plateaued around a similar level. The EIA reported gas demand of 8.617 million barrels per day, down from 8.809 million the prior week. The four-week average is down 9.1%. Ethanol stockpiles were steady from the prior week at 20.3 million barrels, down 12.6% from a year ago. Crude oil stockpiles of 518.6 million barrels, down from 526.0 million the prior week but still up from 18.2% a year ago.

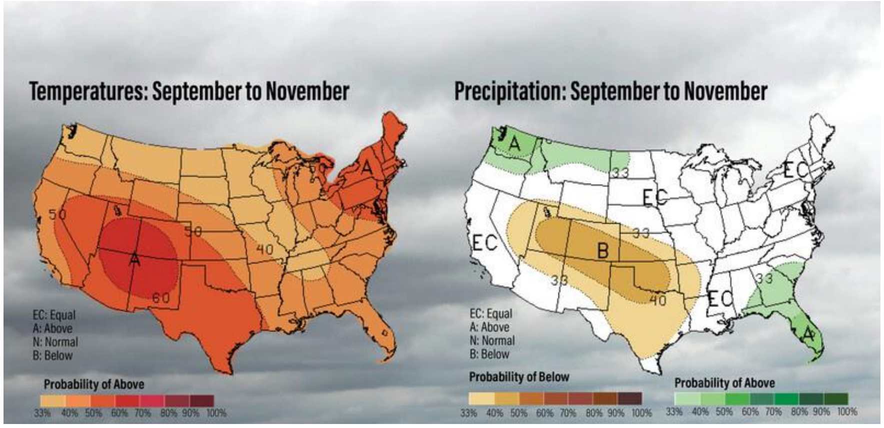




StoneX (formerly FC Stone) project new crop corn yield at 182.4 bushels per acre and 54.2 bushels per acre for soybeans. If these estimates bear out, new crop corn ending stocks would be very close to 3 billion and new crop soybean ending stocks pushing 800mm. This implies harvest lows sub $3 for corn and low $8 for soybeans. At those ending stocks levels Dec corn could still fall another 25+ cents and soybeans 50+ cents.

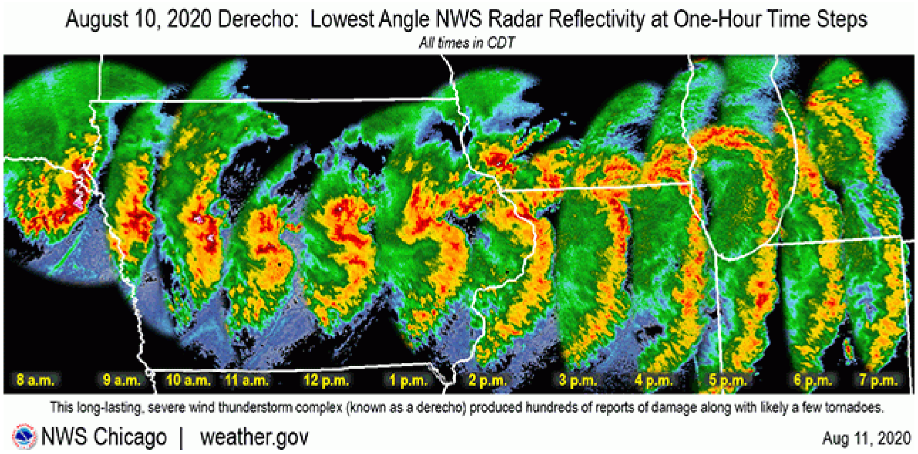


For all of the uncertainty in 2020, weather experts are seeing one likely trend: an early harvest. The USDA had already set the bar high projecting the 2020 U.S. corn yield at a record 178.5 bushels per acre but as the first crop production report gets closer August 12th, a number of private estimates are exceeding that, some by significant margins. A fast start to plantings, the loss of five million acres between the March intentions and June acreage report concentrated in some of the lower yielding states, and generally favorable weather so far this growing season have traders asking how big is big.



After damaging storms raked through the central U.S. on August 10th, traders handed out small gains for corn and soybeans on a light round of technical buying. The USDA's latest crop progress report also factored into the mix, with corn quality declining while soybean quality firmed. Another large sale to China failed to move the needle on soybean prices, however. For wheat, bargain buyers entered the fray, moving prices moderately higher on August 11th. According to analysis of DTN weather data and public crop production data by DTN's weather team and Gro Intelligence, an estimated 6.95 million acres of Illinois corn with an implied production of about 1.39 billion bushels along with and 5.82 million acres of soybeans with an implied production of 360.49 million bushels lay in the path of the derecho. That includes an estimated 823,600 acres of Illinois corn and 715,700 acres of soybeans in the five hardest-hit, wind-whipped counties. Preliminary estimates place total damaged acres at around 10 million, with a wide variety of damage from field to field across central and eastern parts of Iowa.

About one-third of Iowa's estimated 30 million acres of cropland was hit hard by the derecho storm on Monday, and Iowa Secretary of Agriculture Mike Naig said on August 11 that extensive damage was inflicted to about 10 million acres in the central part of the state. The hardest-hit area of the state includes a wide swath from central Iowa northwest of Des Moines, to east-central Iowa east of Des Moines to the Illinois border. The August 10 derecho, with recorded winds of 90 to 100 miles per hour in Iowa, lost steam when it hit Illinois and Indiana (Radar image courtesy of the National Weather Service in Chicago).



U.S. acres reported as prevented by state, August 2020 versus August 2019 and the average of August 2016-2018. Yellow shows states where 2020 is 100% or more above the 16-18 average. 60% of Aug 2020 prevented plant acres was corn, 14% soybeans, 13% wheat, 5% rice, 4% cotton, 3% sorghum.

U.S. Prevented Crop Acres Reported in August *(1,000 acres)*

	2016-2018 avg.	*2019*	2020
Arkansas	366	*1,327*	**1,064**
Colorado	86	*56*	**277**
Illinois	41	*1,502*	**170**
Indiana	34	*944*	**58**
Iowa	12	*463*	**16**
Kansas	66	*629*	**256**
Kentucky	46	*134*	**66**
Louisiana	247	*469*	**366**
Michigan	35	*870*	**73**
Minnesota	39	*1,171*	**247**
Mississippi	245	*622*	**650**
Missouri	78	*1,388*	**451**
Nebraska	29	*408*	**44**
North Carolina	163	*319*	**166**
North Dakota	70	*831*	**2,573**
Ohio	32	*1,486*	**63**
Oklahoma	29	*238*	**176**
South Dakota	177	*3,865*	**1,240**
Tennessee	57	*251*	**244**
Texas	219	*867*	**399**
Wisconsin	55	*593*	**57**
Grand Total	2,596	*19,260*	**8,991**

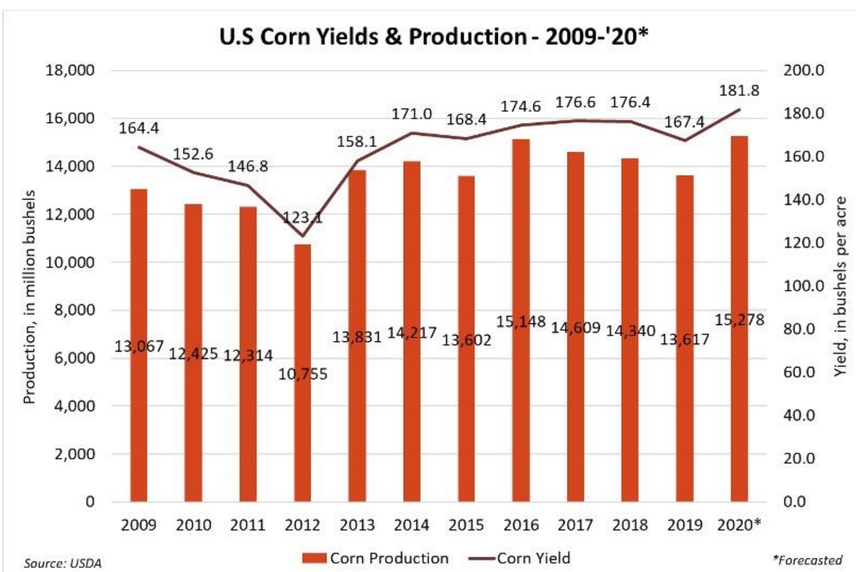
Note: yellow highlighting denotes 2020 100% or more above 16-18 avg.

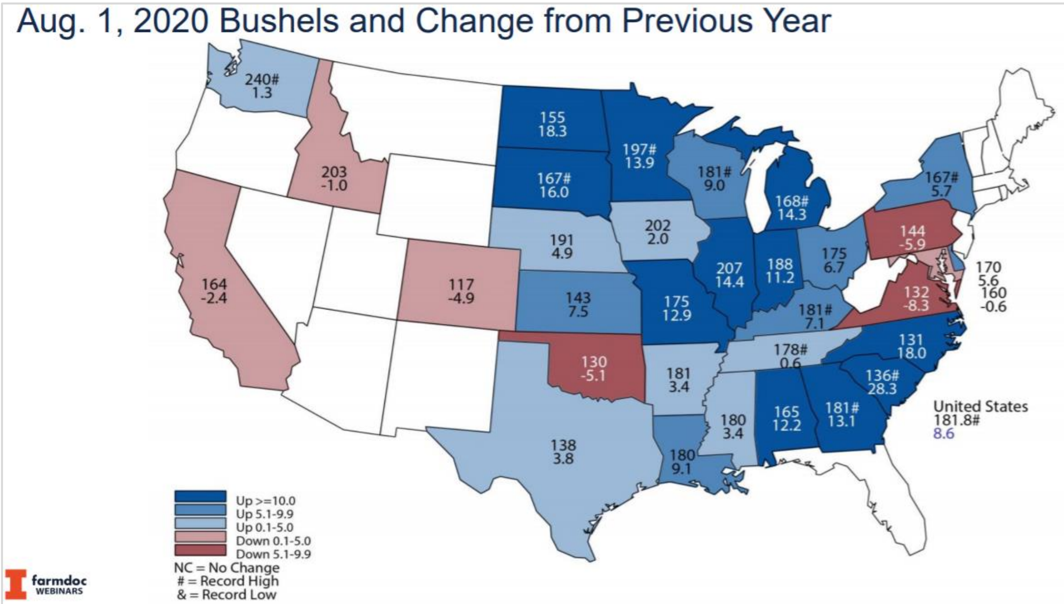
Data source: USDA/FSA @kannbwx

The USDA's initial corn crop estimate is 104 million bushels higher than the average pre-report estimate and would be up 1.67 billion bushels from last year. The USDA estimates harvested corn acres at 84.023 million acres, unchanged from the June estimate. The USDA puts the national average yield at a record 181.8 bushels per acre, which would be up 14.4 bushels per acre from last year. The USDA estimates record corn yields in 10 states -- Georgia, Kentucky, Michigan, Minnesota, New York, South Carolina, South Dakota, Tennessee, Washington, and Wisconsin.

The USDA estimates yield increases from year-ago in all 12 of the top production states. Corn yields are expected to increase in Illinois (up 26 bu. to 207 bu. per acre), Indiana (up 19 bu. to 188 bu.), Iowa (up 4 bu. to 202 bu.), Kansas (up 10 bu. to 143 bu.), Michigan (up 21 bu. to 168 bu.), Minnesota (up 24 bu. to 197 bu.), Missouri (up 20 bu. to 175 bu.), Nebraska (up 9 bu. to 191 bu.), North Dakota (up 24 bu. to 155 bu.), Ohio (up 11 bu. to 175 bu.), South Dakota (up 23 bu. to 167 bu.) and Wisconsin (up 15 bu. to 181 bu. per acre).

The U.S. will likely produce the largest corn crop on record after the USDA projected record-breaking yields for both row crops in August's WASDE. The record high yield (181.8) surpassed the previous high of 176.6 set in 2017. The USDA's estimates came in about 3.3 bushels per acre higher than previous trendline projections despite a dry growing season across many areas of the Corn Belt.





Fundamentally, corn futures rallied yesterday on the back of the USDA's bearish report (a fundamental rejection), which seems to indicate that a lot of the bad news has already been priced in and there was very little value selling in the low $3.20 range. Generally, big crops get bigger, but the storm earlier in the week could make this year an exception. Satellite imagery suggests that there were 10 to 12 million acres affected, which could mark a top in production estimates.

The corn futures bears still have the solid overall near-term technical advantage. The next downside target for the bears is closing December prices below strong chart support at $3.00. The next upside price objective for the bulls is to close December prices above solid chart resistance at $3.35. First resistance is seen at this week's high of $3.27 and then at $3.30. First support is seen at $3.23 and then at the contract low of $3.20. Average farm price forecasts continued their bearish declines. 2019/20 corn price estimates dropped a penny to $3.60 per bushel while new crop average farm prices for corn tumbled a quarter lower to $3.10 per bushel in 2020/21.

Several signals in this morning's report from the EIA indicated that corn consumption for ethanol may be plateauing. Production capacity further constricted as ethanol stocks falling 3% on the week to 829.5 million gallons – the lowest stock level since late November 2015.

The week also marked the third consecutive week EIA reported ethanol imports. This week's total of 1 million gallons/day of ethanol shipments loaded into U.S. ports brings the three-week total of ethanol imports to 2.6 million gallons/day. While this may not be a substantial amount, it could be indicative of rising production costs relative to foreign biofuel producers.

However, ethanol demand from refineries for blending inched up 2% on the week to 36.2 million gallons/day, following a 11 million gallon per day increase in gasoline demand to 373.1 million gallons per day- the highest level since early March 2020.

The USDA trimmed old-crop corn carryover 20 million bushels from July, with a 20 million bushel increase in estimated 2019/20 corn exports accounting for the slip in carryover. At 2.228 billion bushels, old-crop carryover came in 43 million bushels below the average pre-report trade estimate. The 2019/20 national average on-farm cash corn price was unchanged from July at $3.60 per bushel.

For the 2020/21 marketing year, corn carryover is up 108 million bushels from July, but is 44 million bushels below the average pre-report trade estimate. Total supplies are up 278 million bushels from last month, thanks to the 3.3 bushels increase in the national average corn yield. On the demand side, USDA increased estimated feed & residual use 75 million bushels, pushing total domestic use up by that amount. USDA also increased estimated new-crop exports 75 M bushels (to 2.225 billion bushels). For a 150 million bushels jump in total demand from last month.

China's grain imports in the first half of 2020 have jumped enough that more analysts believe that the state grain buying agencies for the People's Republic will use up all their corn and wheat quotas this year, something that's rarely done. More specifically, through the first 6 months of 2020, China has imported 3.66 million metric tons of corn, or about 51% of its annual 7.2 million metric tons quota, compared to them using just 67% of said total quota in all of 2019. Furthermore, wheat imports are sitting at 3.35 million metric tons, 35% of its annual 9.64 million metric ton quota, which is already more than the one-third of the quota that Chinese wheat buyers bought in all of 2019. As a reminder, China has removed all quotas on imports of vegetable oils, including soybean oil and canola/rapeseed oil.

It's very clear that the barbs being traded by Washington and Beijing are accelerating in both volume and intensity, leading some analysts to be concerned that this pot could bubble over and we could see some sort of military conflict sooner rather than later. After all, the U.S. is conducting naval exercises in the South China Sea with Japan, the UK, and Australian navies, while China is doing the same.

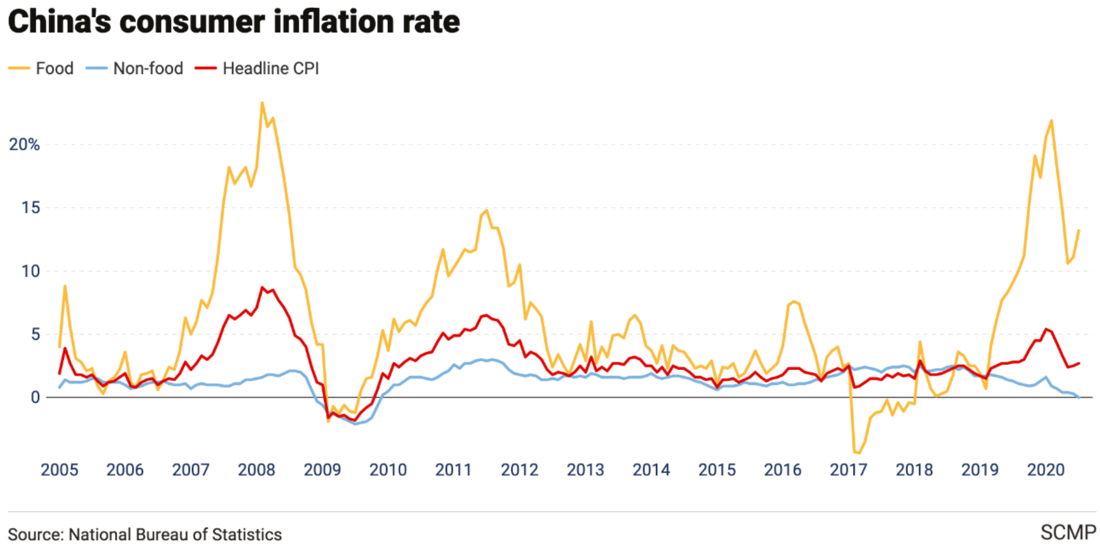
Chinese corn prices on the futures board in Dalian hit their highest level in nearly five years on fears of a supply shortage as flooding continues in the south central part of the country. More specifically though, the Yangtze River is flooding and the intensity of the water flow has damaged the massive Three Georges Dam, there are concerns that the dam could fail. Downstream, the Yangtze River basin accounts for nearly half (50%) of China's annual agricultural output. It could also have a major impact on China's manufacturing and inland shipping along the river, which is important given that it provides easy water access to get goods from in their "heartland manufacturing" region to other parts of the country.

Should the Three Gorges dam fail, it would be a big blow to economic activity in the region, it might be enough to create some unrest amongst the population and challenge the Chinese Communist Party's reign. More succinctly, political analysts are comparing the possibility of the Three Georges Dam failing and the CCP's fallout to that of Chernobyl and how it put a nail in the coffin of the Soviet Union. With more rain in the forecast, for the region, it could put even more pressure on the Dam and the 40 million people who have already been displaced by the flooding happening today, could grow to +100 million of people.

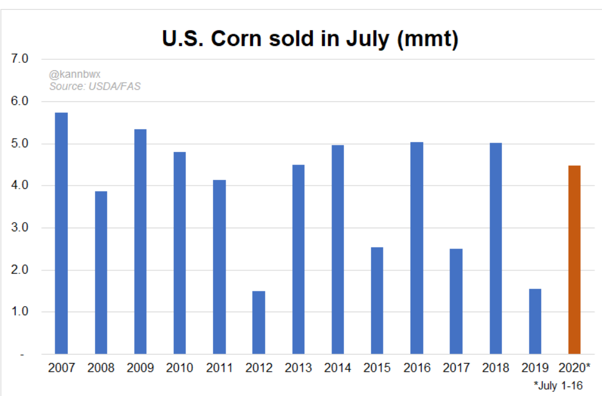
Frankly, if the dam fails, there is a lot of economic and political implications, but as it relates to grain markets, we will likely see a healthy pop. More specifically, given the importance of the region to China's food security, if the Three Georges Dam were to fail, China would have to import a lot more than it currently is, and not just corn or soybeans or wheat, but fruits, vegetables, meat, etc.

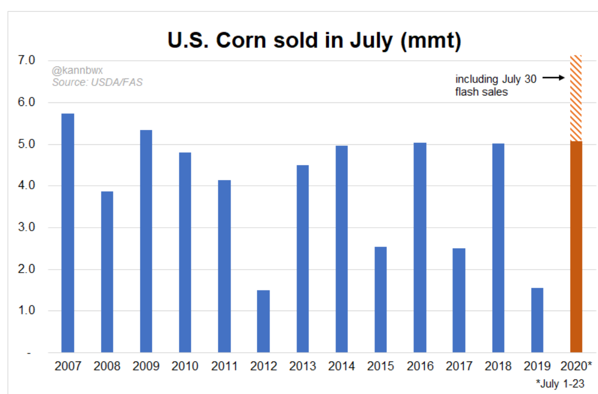
Chinese flooding forces that government to release stocks and buy U.S. food produce as food prices rise. Flooding has destroyed significant crops in China just as rice was coming ready to harvest in China, CNN reported. Estimates suggest that 13 million acres of crops have been flooded destroying some $1.7 billion in crops and another $19 billion in other infrastructure affecting around 55 million people. China has already released significant amounts of rice, corn and soybeans to help temper price rises. China's total cropland in 2019 was estimated at 165.93 million hectares or 410 million acres. "The flooding in many places had a particular impact on transportation of live pigs, so the supply is relatively tight," the National Bureau of Statistics (NBS) said.

Torrential rain triggered the third flood peak of the Yangtze River recently, putting the Three Gorges Dam under severe pressure as China grapples to mitigate the impact of the deluge. Authorities have issued warnings of possible new flood peaks in the near future, requiring the Three Gorges Dam to reserve enough space for the possibility of additional floods. Warning against a new peak that may appear later, China's water resources ministry said, "The flood control and flood fighting situation is severe."

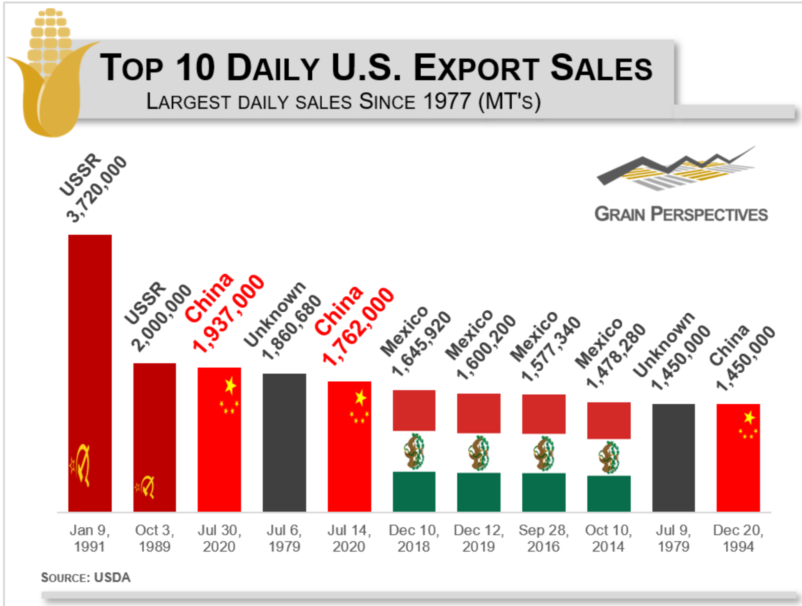


U.S. corn export sales during July have been well above average. First half sales totaled 4.5 million metric tons (176 million bushels). That is already 22% above the ten-year average for the entire month. The U.S. in July has sold at least 7.15 million tons (281 million bushels) of corn for export, by far the largest for the month in recent memory and likely ever. Te 10-year average for the whole month is 3.7 million metric tons, including old and new crop sales.





The massive U.S. corn sale to China was the third largest single sale ever behind a pair of sales to the USSR back in 1989 and 1991. China has now made 3 of its 4 largest purchases of U.S. corn on record this month. U.S. corn export sales commitments to China total at least 5.720 million metric tons (225.2 million bushels). Demand for U.S. corn from buyers other than China has been slow, evidenced by the disappointing weekly exports sales of 23.9 million bushels for the week ended July 23rd. With the USDA reporting net sales cancellations of 1.2 million bushels for 2019/20 delivery, it now seems unlikely that U.S. corn exports will reach USDA's current forecast of 1.775 billion bushels. A significant portion of Chinese purchases for shipment in 2019/20 will most likely be carried over into 2020/21.



Here is some perspective on China's aggressive purchases of U.S. corn. Chinese corn purchases for 2020/21 stood at 3.8 million metric tons as of July 23, and the recent daily sale pushes the known total to +5.7 million metric tons. This is an anomalously high tally for any country to have on the books at this point in the season, let alone China. Japan usually has less than 2 million metric tons on the books at the start of the new marketing year, while Mexico has usually purchased between 2.5 million metric tons and 3.5 million metric tons by the official start of the new marketing year, according to Reuters. These countries are the top buyers of U.S. corn. Of note, China's purchases already account for 81% of the USDA's 7 million metric ton corn import projection for China.

China has accelerated grains buying from abroad in the first half of 2020 and may fully use up its annual quotas for corn and wheat imports for the first time ever. China, the world's top agricultural market, imported 3.66 million tons of corn from January to June, 51% of its annual quota for the grain set at 7.2 million tons, according to customs data released on Thursday. Wheat imports came at 3.35 million tons, 35% of its yearly quota at 9.64 million tons, the data showed. Last year, China only used 67% of its annual quota for corn and one-third of its yearly wheat quota.

The import surge has increased expectations that China will fully use up its corn and wheat quotas for the year for the first time, said a source with knowledge of China's agricultural buying. The market is expecting China to import close to 10 M tons of corn this calendar year,

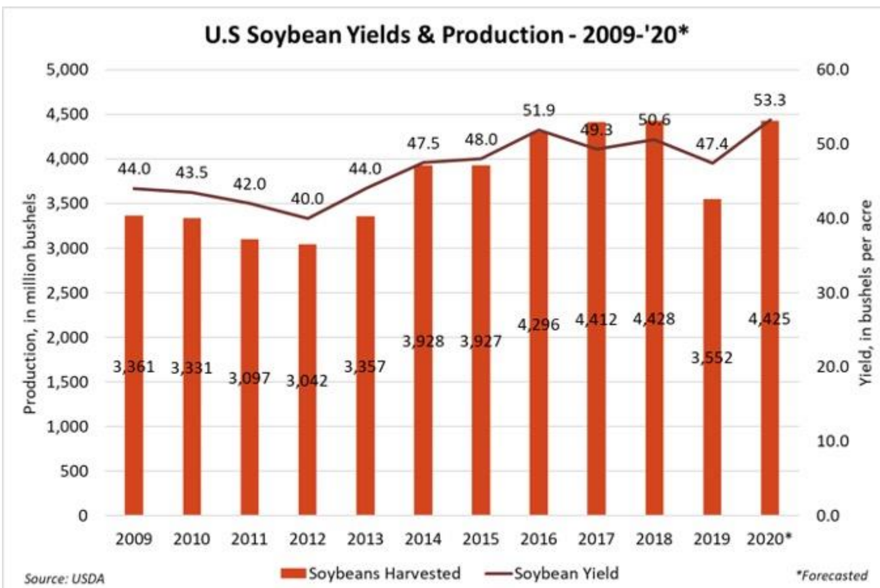
China has stepped up purchases of U.S. farm goods in recent weeks and follows gains in Chinese corn prices because of tightening domestic supplies and falling stockpiles. China allows a certain volume of imports of rice, corn, and wheat through TRQ, under which importers can buy specified volumes with duties as low as 1%, compared with 65% without the quotas.

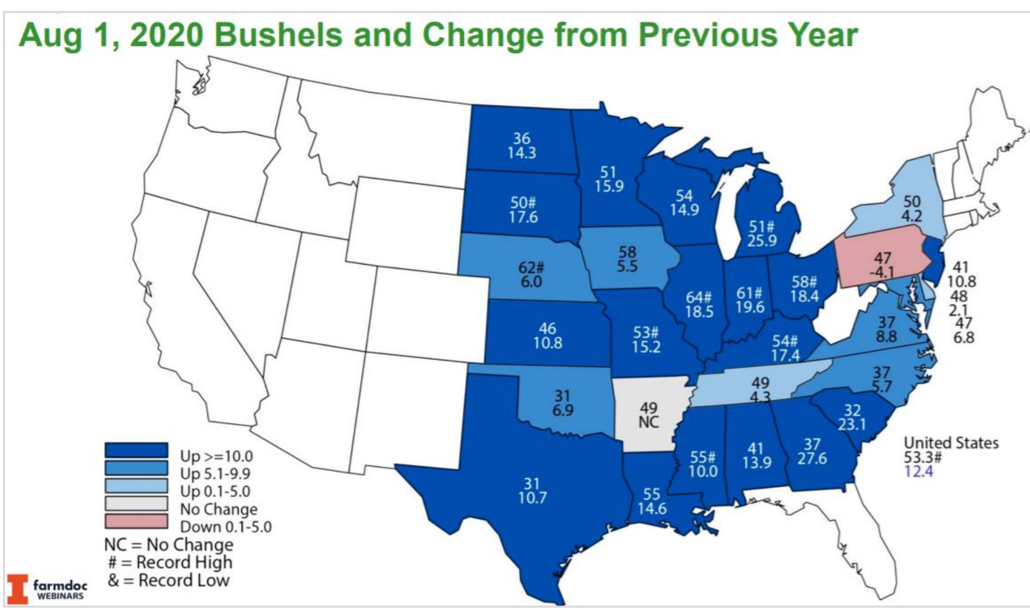
Soybeans

The USDA's initial soybean crop estimate is 171 million bushels above the average pre-report trade estimate and would be up 873 million bushels from last year. The USDA estimates harvested soybean acres at 83.020 million acres, unchanged from the June estimate. The USDA puts the national average yield at a record 53.3 bushels per acre, which would be up 5.9 bushels per acre from last year. The USDA estimates record soybean yields in nine states- Illinois, Indiana, Kentucky, Michigan, Mississippi, Missouri, Nebraska, Ohio, and South Dakota.

The USDA expects yield increases from year-ago in 12 of the top 13 production states. Soybeans yields are expected to increase in Illinois (up 10 bu), Indiana (up 10 bu.), Iowa (up 3 bu.), Kansas (up 4.5 bu.), Michigan (up 10.5 bu.), Minnesota (up 7 bu), Missouri (up 7 bu.), Nebraska (up 3.5 bu.), North Dakota (up 4.5 bu.), Ohio (up 9 bu.), South Dakota (up 7.5 bu.) and Wisconsin (up 7 bu.).

Soybean yields for 2020 rose 3.5 bushels per acre over trendline forecasts to 53.3, besting the record of 51.9 set in 2016. The USDA's forecast exceeded market expectations, the highest of which was 53.0 bushels per acre. Prices dipped slightly in the moments following the report though with soybean conditions exceeding those of corn for most of the summer, a bumper soybean crop was not exactly a shock to the markets.





Fundamentally, soybeans rallied following the August's report, which showed monster numbers for yield and production, a fundamental rejection. Generally big crops get bigger, but the storm earlier in the week could make this year an exception. Satellite imagery suggests that there were 10 to 12 million acres affected, which could mark a top in production estimates. USDA average farm price projections for U.S. soybeans were mixed in today's report. A flurry of export demand from China in recent weeks helped spur 2019/20 soybean price estimates up $0.07 per bushel to $8.55. But the bumper crop expected this fall led USDA to slash $0.15 per bushel from 2020/21 average farm prices to $8.35.

November soybean futures prices closed near the session high today and scored a bullish "outside day" up on the daily bar chart. Bears still have the overall near-term technical advantage. Prices are in a five-week-old downtrend on the daily bar chart. The next near-term upside technical objective for the soybean bulls is closing November prices above solid resistance at $9.00. The next downside price objective for the bears is closing prices below solid technical support at the late-June low of $8.56. First resistance is seen at $8.85 and then at $8.90. First support is seen at $8.75 1/4 and then at this week's low of $8.65 1/4.

November soybeans finished 16 cents higher than the low for the day, closing at $8.83, despite what appeared to be bearish supply data. The sharply higher soybean oil close also supported beans. Soybean oil rallied thanks to foreign oilseed production being reduced by 1.7 mmt to 479.6 mmt, primarily due to lower rapeseed and sunflower seed crops. September bean oil rallied 0.94 cent per pound to 31.56 cents.

This chart shows November soybeans closing nearly 10 cents higher, and up for the third straight day, despite the larger-than-expected and record-large bean yield and higher domestic ending stocks. Higher crush and exports suggest that the recent surge in Chinese buying is likely to continue (DTN ProphetX chart).

New crop soybean usage forecasts heated up as well. Strong old crop crush demand tightened 2019/20 ending stocks and continued higher into 2020/21, with USDA forecasting a 20 million bushel increase in crush rates in the new crop year on increased soyoil demand. Additional increases to export and residual usage continue to set a new high for domestic soy usage, rising 100 million bushels to 4.445 billion bushels. The new record usage rate indicates that the world is ready to take advantage of a bumper 2020 crop.

But will historic soy usage be enough to offset the large 2020 crop? New crop ending soybean stocks increased 185 million bushels to 610 million bushels, widening ending carryout to 50 days. But if the U.S.

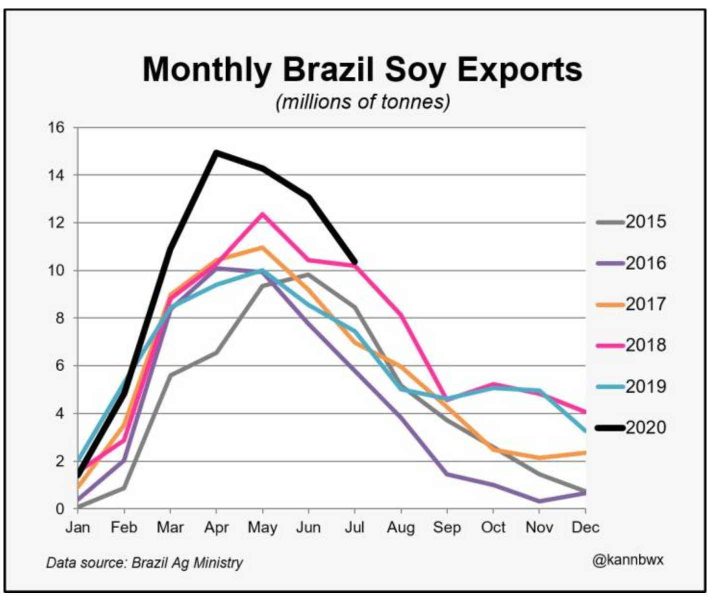
can repair trade relations with China, price levels may continue to support heavy stocks, especially if record usage rates continue through the new marketing year.

Chinese soybean imports are projected to increase by 110.2 million bushels to 3.637 billion bushels as China's pig herd recovers in rapid fashion and more Chinese consumers increase poultry consumption in the wake of high pork prices. This would help stimulate U.S. soybean prices if trade relations with China can be maintained into the 2020/21 marketing year.

Old-crop soybean carryover was trimmed 5 million bushels from last month and came in 2 million bushels below the average pre-report trade estimate. USDA increased estimated old-crop crush 5 million to 2.160 billion bushels. Old-crop exports were unchanged at 1.65 billion bushels and old-crop residual "use" continues to reflect ideas that last year's bean crop was underestimated by about 50 million bushels. The 2019-20 national average on-farm cash bean price is steady from last month at $8.55.

New-crop bean carryover is up 185 million bushels from July and is 86 million bushels above the average pre-report trade estimate. Total new-crop supplies are estimated up 285 million bushels. That is due to the 290 million bushel jump in the 2020 crop, which was driven by the 3.5 bushel jump in the national average yield. On the demand side of the new-crop balance sheet, the USDA increased estimated crush 20 million bushels (to 2.18 billion), increased estimated exports 75 million bushels (to 2.125 billion) and increased estimated residual by 5 million bushels (to 40 million). That is a 100 million bushel increase in total use from last month that still resulted in a 185 million bushel increase in carryover. The USDA projects the national average on-farm cash bean price at $8.35.

It was estimated how roughly 85% of China's 11.16 million metric tons of soybeans imported in June came from Brazil. Well, Chinese customs officials came out with an updated number, saying that they actually imported 10.51 million metric tons from Brazil in June, a new record for any month and nearly double what was shipped from Brazil to China in June 2019. It was also up nearly 20% from the 8.86 million metric tons of Brazilian soybean exports imported by China in May 2020. Comparably, China brought in just under 270,000 million tons of American soybean exports in June, down 56% year-over-year and 46% from May. Preliminary data suggests Brazil exported 10.4 million tons of soybeans in July with 76% to China. That would top 2018's record of 10.2 million metric tons if it stands.



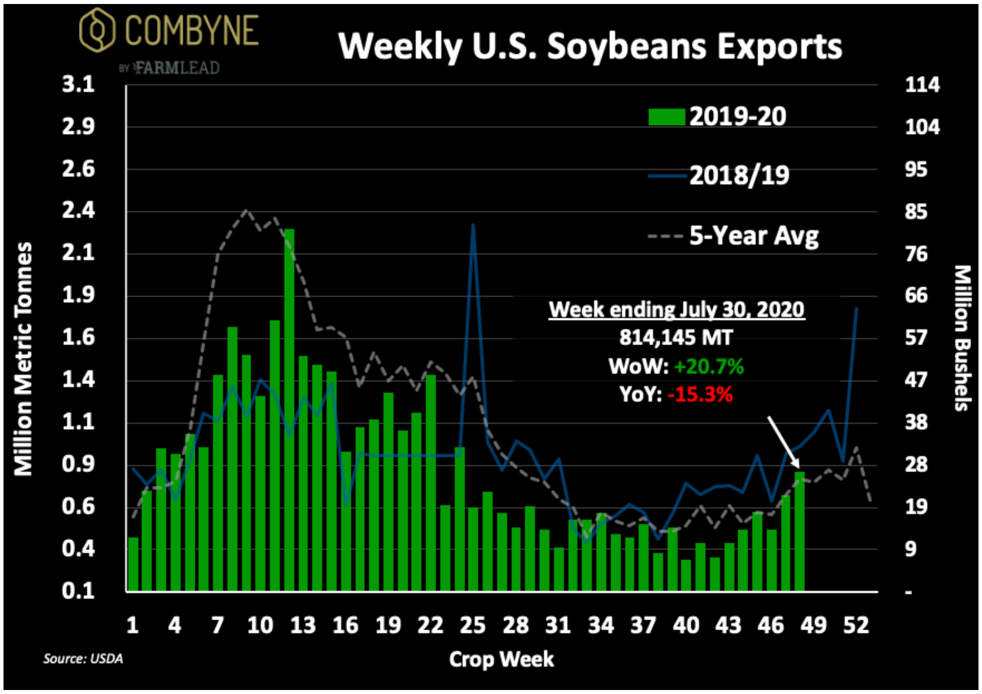
Something worth pondering on is that China had a record low supply situation of soybeans back in March. Today, soybean supplies in China are sitting at 7.4 million metric tons, the highest they have been since November 2018 and double what they were back in March. That said, Brazil is still shipping out soybeans like their life depended on it! Brazilian grain exporter association, ANEC, is estimating that, based on current shipping line-ups and sailings, Brazil's soybean exports in July will total 8.8 million metric tons. This would be up nearly 50% from the 6 million metric tons sailed in July 2019.

In terms of new crop soybean exports, demand continues to be fairly solid, and if China were to make good on its Phase One trade deal terms, the U.S. soybean balance sheet should get a lot tighter. However, China has a long way to go to meet said Phase One targets, and talk is cheap when it is easy to buy and then cancel shipments. That said, what is favoring U.S. soybean exports going forward is the U.S. dollar hitting its lowest level since January (should help international purchasing power) and the fact that Brazil is running out of soybeans to ship out.

While most of the attention will be paid to 2020/21 soybean exports sales, 2019/20 American shipments are still tracking 3% below last year with 38.81 million metric tons sailed through Week 46 (or 1.426 billion bushels if converting metric tons into bushels). With 6 weeks left in the U.S. soybean crop year, it is worth the reminder that the USDA is expecting a 2019/20 total in U.S. soybean exports of 44.91 million metric tons, or 1.65 billion bushels).

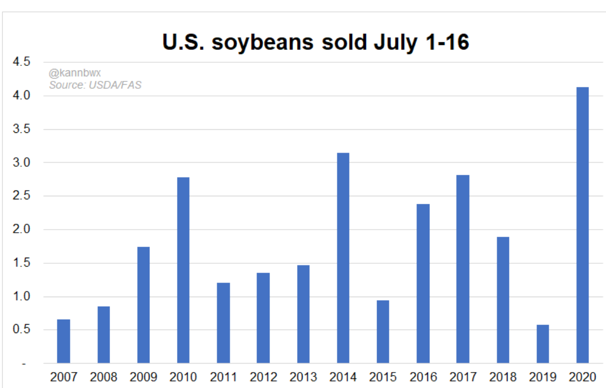
There are three major fundamental factors that are weighing on soybean prices. First, is the potential of a large U.S. soybean harvest. Second, the unreliability of China as a trading partner with China buying more from Brazil than the U.S., and the American soybean export campaign is reflecting that: with 4 weeks left to go in its 2019/20 crop year, U.S. soybean exports are tracking about 5% behind last year, with nearly 40 million metric tons sailed. The third factor is the looming record soybean harvest out of Brazil and what they may export. Brazilian soybean traders association said last week that, out of a 130.5 million metric ton soybean harvest, they expect their members to ship out as much as 80 million metric tons of soybeans. Thinking more currently, while China technically imported 10.1 million metric tons of soybeans in July (+18% year over year), the majority of it is still coming from Brazil.

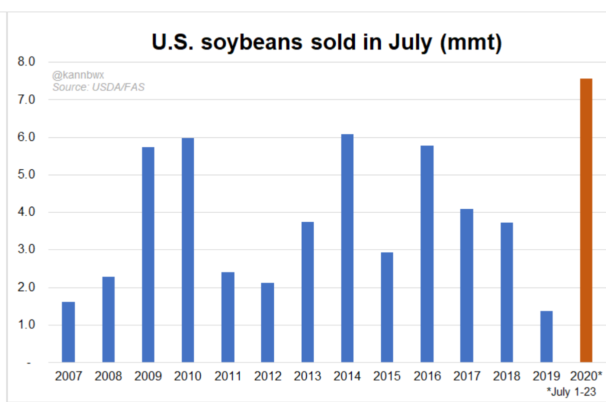
Further, Brazil's national grain exporting agency (ANEC) says that its members are expected to ship out 6.72 million metric tons of soybean exports and 6.32 million metric tons of corn exports in August. If realized, this would be a 33% jump compared to the same month a year ago, albeit, for soybean exports, it would be below the 8.02 million metric tons sailed last month in July. While Brazil is likely running out of soybeans for international buyers today, it is likely they will have another record soybean harvest to supply said customers starting in January 2021. While we might see some weather premiums come about for soybean prices in November (when the Brazilian crop is in the middle of its growing season), if China's not buying U.S. soybean exports, then soybean prices might not appreciate any weather concerns as much.



Chinese soybean imports in June from Brazil soared to a record high, according to recently released customs data, this record high was driven by growing demand for soybeans as China's pig herd recovers after deadly outbreaks of African swine fever. China's overall soybean imports in June were a record 11.16 million tons as Chinese processors also made the most of lower Brazilian prices as better weather facilitated exports. China brought in 267,553 tons of soybeans from the U.S. in June, down 56.5% from 614,805 tons in the previous year. Imports fell 45.6% from 491,697 tons in May.

The U.S. sold 4.13 million tons (152 million bushels) of soybeans during the first half of July. That is a record for modern times, and probably for all time. 23% was old-crop and 77% new, which is exactly the 10-year average for the first half of July. Through July 23, July sales of U.S. soybeans totaled 7.6 million tons (278 million bushels), also a record.



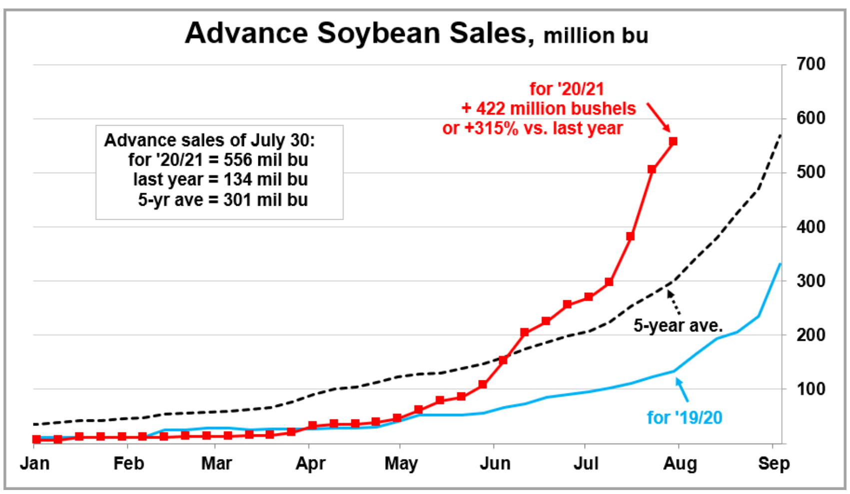


China's Soybean Imports & Origins

June 2019	mil. tonnes	June 2020	mil. tonnes
TOTAL	**6.51**	**TOTAL**	**11.16**
Brazil	5.50	Brazil	10.51
USA	0.61	USA	0.27
May 2019		**May 2020**	
TOTAL	**7.36**	**TOTAL**	**9.38**
Brazil	6.3	Brazil	8.86
USA	0.98	USA	0.49

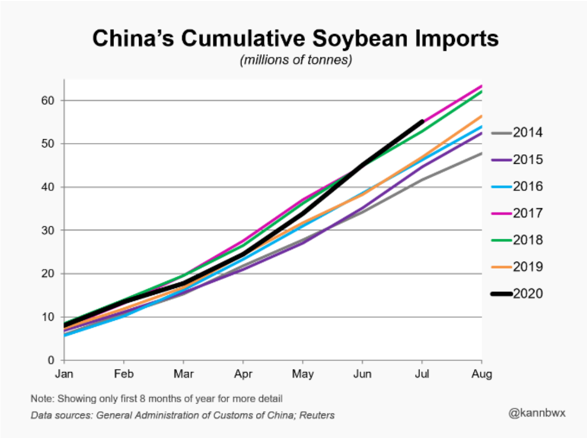
Sources: China's General Administration of Customs; Reuters @kannbwx

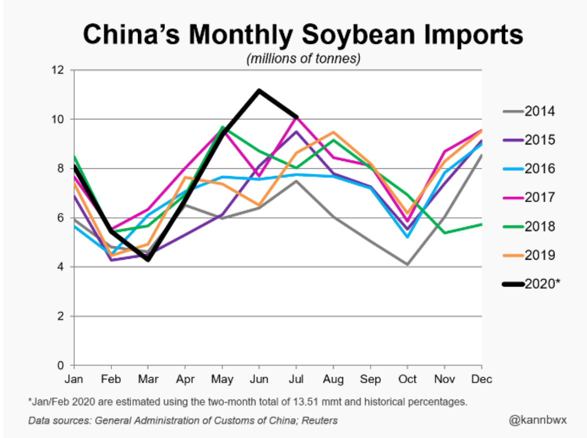
U.S. soybean export sales for 2020/21 delivery as of July 30th had reached 556.1 million bushels, with sales to China accounting for 314.7 million bushels of that total and sales to unknown destination, which are likely mostly to China accounting for another 160 million bushels. Combined sales to China and unknown destination account for over 85% of total next marketing year sales. Other than China, only Mexico has made notable U.S. soybean purchases for 2020/21 at about 40 million bushels.



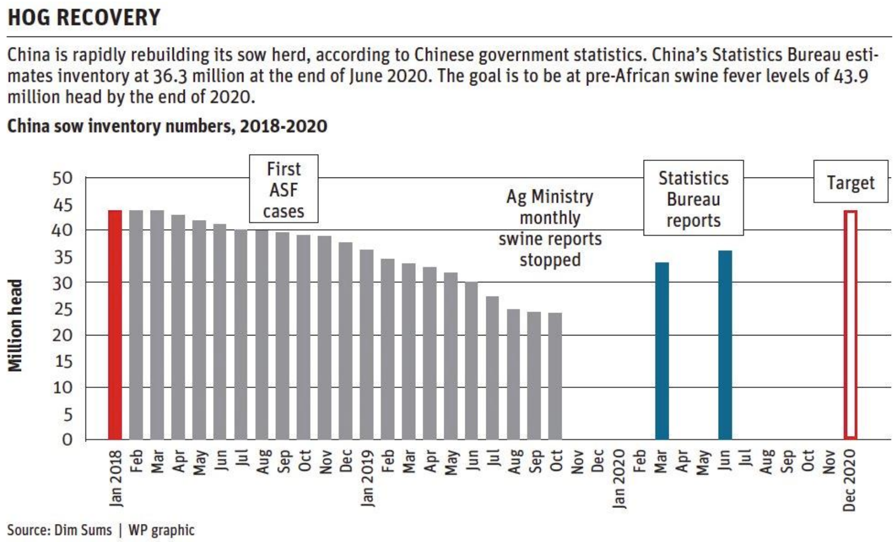
U.S. soybean sales to China for the upcoming marketing year are currently at a six-year high. China is working through large supplies of soybeans bought from Brazil earlier in the season. Brazil had record high soybean output this year, while the currency depreciated, making Brazilian beans cheap and leading to excellent China crush margins, which in turn encouraged active buying. These factors now favor the U.S., which is the most competitive origin in the world, at least until the next crop is ready in South America early next year.

China imported 10.09 million metric tons of soybeans in July, fractionally topping 2017's record of 10.08 million metric tons. That brings Jan-July imports to a record 55.1 million metric tons: +0.4% in 2017; +4.2% in 2018; +17.5% in 2019.





China's National Bureau of Statistics reports that the country's hog inventory reached 340 million head at the end of June, up from 310 million at the beginning of the year, according to Dim Sums, a web blog on China's rural economy. The key number contained within that larger number is the country's sow inventory, which reached 36.3 million at the end of June, according to the bureau. That is way up from the low of around 25 million head when the agriculture ministry stopped reporting the number on a monthly basis in October 2019, in the midst of the African swine fever outbreak. The ministry's objective is to boost sow numbers to 43.9 million by the end of 2020. That would be the same level as the beginning of 2018, before the ASF crisis erupted.

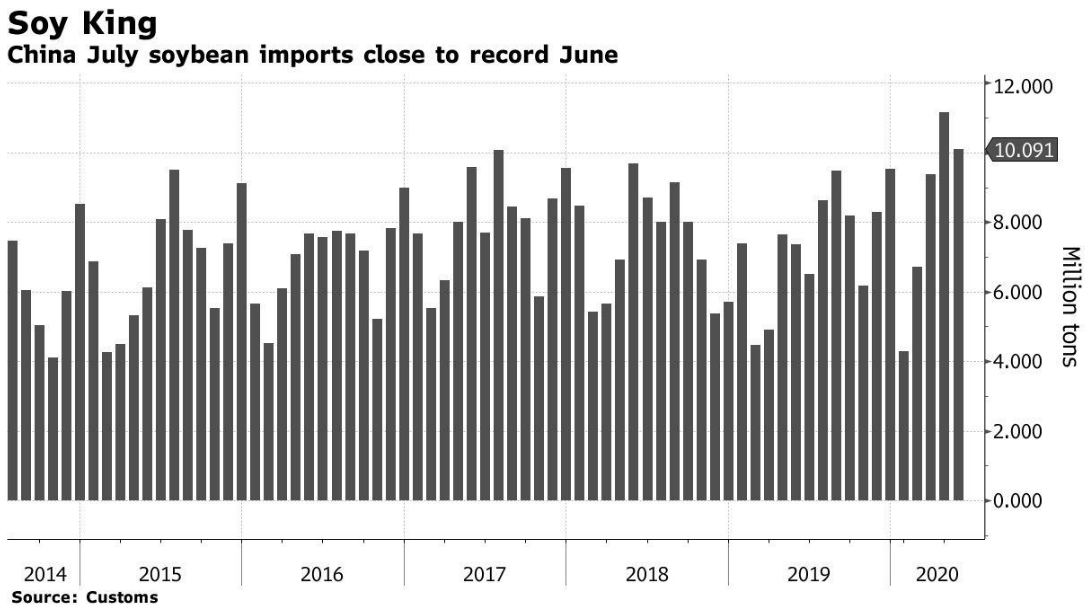


China has stepped up imports of U.S. farm goods, including beans, in recent weeks as it tries to fulfil its pledge under the Phase One deal. However, traders and analysts say it would need "explosive" buying to meet the target. The purchases would be driven by commercial interests, traders said.

Crush margins in eastern China's Shandong province, a major hub for soybean processing, were about ¥289 ($41.48) a ton. That was not too far from levels of ¥367 ($52.80) a ton hit in July, the highest in more than three months. Traders had worried record Brazilian shipments would lead to bulging inventories and dampen crush margins. High stocks are being digested quickly by the poultry sector, which expanded as consumers sought alternatives to pork after the African swine fever outbreaks decimated the country's pig herd, and thanks to a recovery in pig production after the deadly disease.

U.S. soybean imports could come in even higher given that some importers are waiting for U.S. prices to soften during the harvest before locking in purchases, traders said. Meanwhile, state firms could be mandated to buy more as China seeks to build up state stockpiles to protect against disruptions from the coronavirus pandemic.

Chinese soybean imports were the second highest on record in July as processors increased purchases of cheaper Brazilian supplies and demand for hog feed recovered.

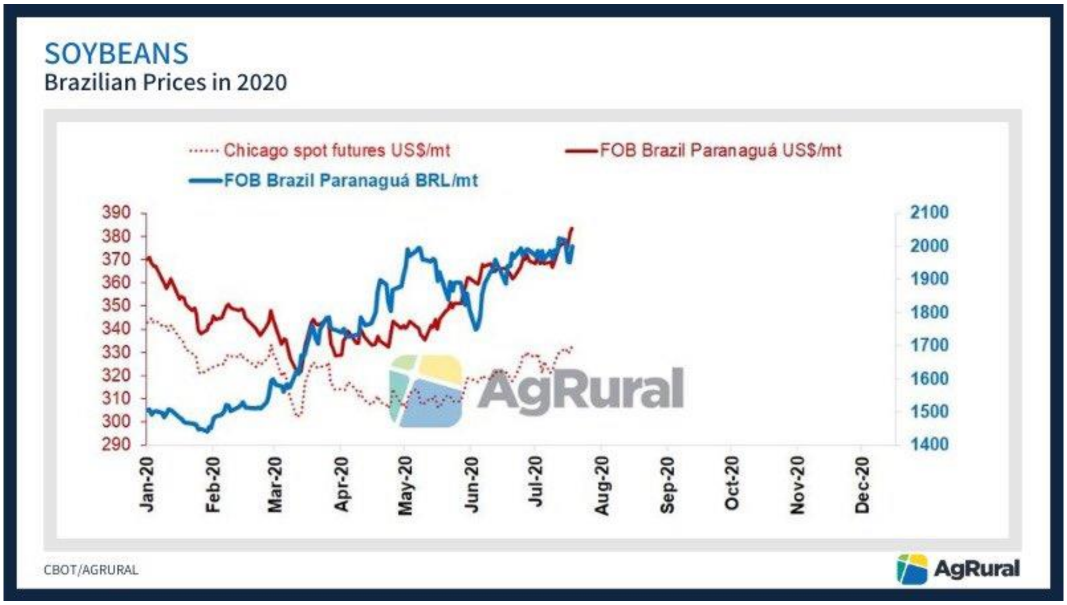


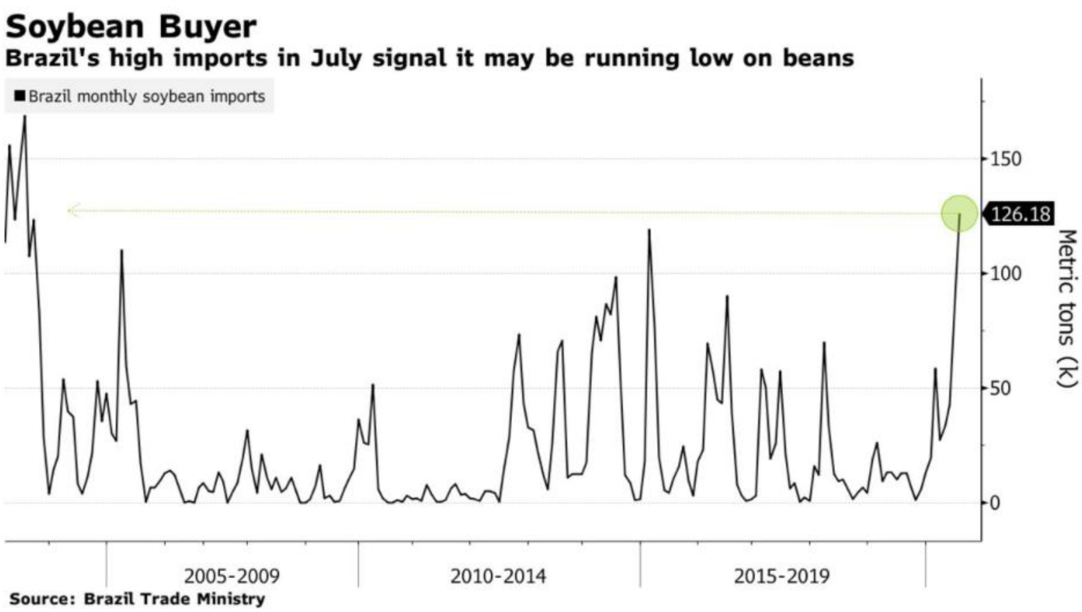
Brazil’s 2020-21 soybean crop will likely come in around 130.8 million metric tons, projects the agribusiness consultancy Celeres. That would be a 6.1 million metric tons (4.9%) hike from Celeres’ forecast for the 2019/20 crop. Planting of the crop has yet to begin, but the strong financial standing of most producers along with China’s voracious appetite for soybeans is expected to boost soybean plantings by 1.3 million hectares (3.5%) to 38.2 million hectares.

Estimates for the 2020/21 Brazilian soybean crop were released yesterday and show a strong desire by Brazilian farmers to expand their reach. New crop projections soared to 4.8 billion bushels, up from 4.6 billion bushels in 2019/20. Rising soy exports to China supported this year’s record large Brazilian crop and will continue on in 2020/21.

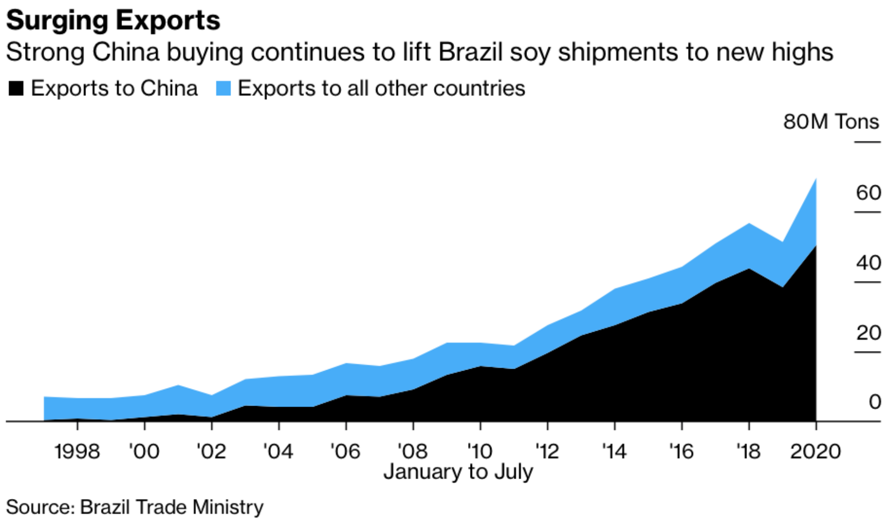
As the ICE Dollar Index weakened to its lowest point since October 2018, China took advantage of price reductions on U.S. soybeans, making its fourth consecutive U.S. soybean purchase this week. The USDA announced via private exporters recently that China had snapped up 4.8 million bushels of 2020/21 soybeans, extending their most recent new crop purchases to 81.0 million bushels to date for July 2020.

This chart helps explain why Brazil exported so much in the first half of 2020 and has virtually run out of soybeans so early. While local buyers fight for the small amount that farmers still have, it is time to focus on the next crop- and sales for delivery in 2021 have been strong.





A recent Bloomberg News article notes that, "Processing industries are bringing the oilseed from Paraguay for crushing as exports continue breaking records. The weakness of the Brazilian real- this year's worst performing major currency- helped boost the nation's exports amid robust Chinese demand. Local consumption is also strong on higher use for feed and biodiesel."



More broadly with respect to U.S., China relations, the Wall Street Journal reported that, "The Trump administration's cascade of actions taken against Beijing represent a new chapter in U.S.-China relations, one marked by increasing confrontation and few efforts to de-escalate the tensions." The Journal article pointed out that, "In recent days, the White House has piled one anti-China initiative on top of another in sectors including finance, technology and national security. They include starting the process of delisting Chinese companies in the U.S., planning to shutter two of the most popular Chinese apps— WeChat and TikTok—sanctioning Hong Kong leader Carrie Lam, sending a cabinet official to Taiwan and closing the Chinese consulate in Houston."

Rice

Progress of the 2020/21 U.S. rice crop varies by region. The Delta is still behind its normal progress due to above-average rainfall this Spring and early Summer, while the rice crop's progress is about normal on both the Gulf Coast and in California, mostly due to generally favorable weather in both regions. For the week ending August 9th, 75% of the U.S. 2020/21 rice crop was reported headed, up slightly from 71% a year earlier but below the U.S. 5-year average of 83%. On the Gulf Coast, 95% of the Louisiana crop was reported headed by August 9, 5% points ahead of a year earlier but one percentage point behind the State's 5-year average. The Texas rice crop was reported 97% headed by August 9th, slightly ahead of last year's pace but unchanged from the Texas 5-year average. In 2019/20, plantings were delayed in both Gulf Coast States due to rain, although the impact on crop progress and planting levels was not as severe as in the Delta.

In the Delta, 72% of the Arkansas 2020/21 rice crop was reported headed by August 9th, 4% ahead of last year's rain-delayed crop and but behind the Arkansas 5-year average of 83%. In nearby Missouri, just 54% of the 2020/21 rice crop was reported headed by August 9, 4% ahead of last year's rain-delayed crop but well behind the Missouri's 5-year average of 74%. Mississippi's 2020/21 rice crop was reported 82% headed by August 9th, down 6% points from a year earlier and 8% behind the Mississippi 5-year average. Like Arkansas and Missouri, rain delayed plantings this Spring in Mississippi, which indicates a later-than-normal harvest.

Finally, 65% of the California 2020/21 rice crop was reported headed by August 9th, 4% behind last year's pace and 3% behind the California 5-year average. Harvest began last month on the Gulf Coast, a typical starting time for this region. In Louisiana, 48% of the 2020/21 U.S. rice crop was reported harvested by August 9th, well ahead of 33% last year when rain delayed Gulf Coast plantings and 5% ahead of the Louisiana 5-year average. The Texas crop was reported 34% harvested by August 9th, also well ahead of just 17% reported a year earlier, but even with the Texas 5-year average.

Price discovery is in its early stages and will improve as more harvest data becomes available. For now, prices remain mixed, with Texas prices down slightly while Arkansas and Missouri prices slightly up. Unless the aforementioned weather systems result in heavier than expected rainfall and wind, the crop should come thru it unscathed. However, if the storms are worse than predicted, and yields are dampened as a result, buyers may be tempted to pick up a few more lots which may result in some price action.

The rough rice cash market ticked slightly downward this week as most of the industry continues to prepare for a larger crop. To reiterate what was stated in previous reports, the USDA June acreage report has US long grain acres up 24% year over year which translates to an additional 426,000 acres or about 31 million cwts of increased production (assuming average yield of 73 cwts per acre).

At the beginning of July, total export demand for US long grain rice was down 6.75% year to date, and now the latest export sales report cites total demand to be down 9.45% YTD. This slowing of export business falls in line with industry expectations as sellable supplies all but dried up later in the season. Continuing the trend, net sales for the week were down again this week (30%).

The rice market has continued to trade sideways in the pre-harvest interval since the last report. There is no significant amount of rice yet to trade until the first lots of new crop are dried and graded. Vessel loadings note a similar scenario, with very low tonnage as well. The rough rice cash market ticked slightly downward this week as most of the industry continues to prepare for a larger crop. To reiterate what was stated in previous reports, the USDA June acreage report has US long grain acres up 24% year over year which translates to an additional 426,000 acres or about 31 million cwts of increased production (assuming average yield of 73 cwts per acre). The carryout is projected to be down 18 million cwts against last year, thereby providing some price support moving into the new marketing year. However, the additional 31 million cwts of new crop production will more than offset that component and should setup supplies to mirror that of 2018/19. This means that demand which appears to be a little slow to materialize will be essential in maintaining or improving upon current cash prices.

In the last export sales report of the 2019/20 marketing year, net sales fell to 2,600 tons in the period from 7/24 – 7/30. This was the slowest week in months, but loadings rallied to 49,100 metric tons. This of course is indicative of the current demand situation. Exports have slowed drastically as buyers exercise patience and look to new crop. The domestic market has also reached a standstill which is largely the result of restaurant's closing their doors around the country, some permanently and some hopefully just temporarily as increasing COVID-19 regulations weigh heavily on the food industry. Fortunately, there is some optimism in a few states, where COVID-19 cases that were once seeing daily surges have posted consecutive days of fewer reported cases.

So far, there has not really been much evidence of new-crop discounting as there has been so little rice harvested to date. However, there is going to be huge quantities cut over the next month or two. Meanwhile, buyers, foreign and domestic, covered early and often, and are exhibiting that "staying power". At the same time, there has been very little loss of market share that could have been otherwise covered, if not for the limitations in the old crop ending stocks. The bearish side: (1) Millers are facing gaps in their schedules moving forward; (2) Growers are not going to concede easily on price; (3) Offshore buyers have the luxury of playing MERCOSUR off our stocks; (4) Iraq remains a vital ingredient in the formula; whilst, payment issues far from resolved.

The bull side: (1) There is a lot of coverage that need be taken in the months ahead both paddy and milled; (2) The crude market has rallied; (3) MERCOSUR has already marketed almost 60% of their exportable surplus; (4) #3 limits the amount of paddy that can compete/ supplant in offshore paddy markets.

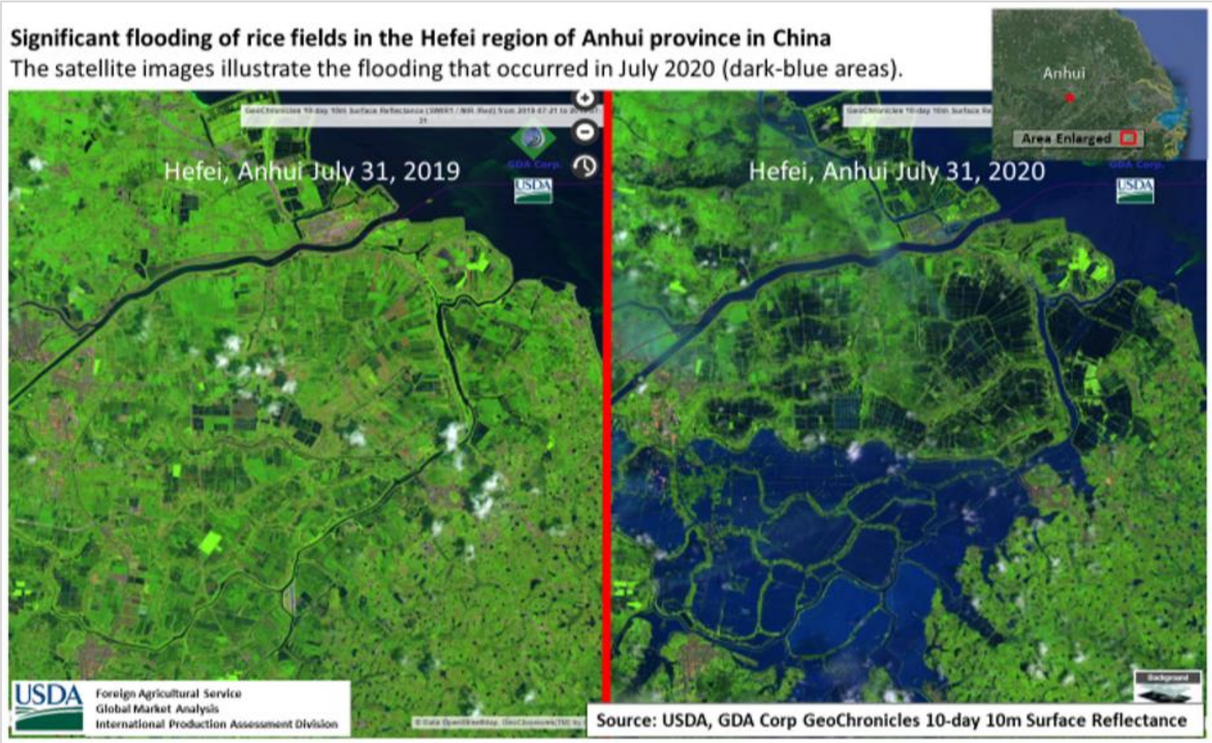
The following market parameters are key for the South American MERCOSUR market: (1) Brazil remaining a buyer throughout most of the marketing year for Paraguay to survive; (2) Uruguay will have to eventually find that ancillary offshore buyer, that can make 2-4 cargos go away; (3) Argentina will need similar to Uruguay, just not as much of it; (4) Once the Asian trade heats up, value-added markets like EU will provide "safe-harbor" for some millers in the region.

Market comments are indicating Brazil is oversold and is showing interest in U.S. paddy. After strong sales to Mexico, Central America and traditional customers the Mercosur mills are addressing domestic demand with remaining stocks. Spring planting has begun in Paraguay and dry conditions throughout the Mercosur region is a concern to farmers. Should it come to fruition, this scenario could bode well for US long grain demand. Ultimately the changes in August's WASDE resulted in 2020/21 ending stocks being revised downward 700,000 cwts from last month.

The 2020/21 global outlook is for smaller supplies, lower consumption and trade, and reduced stocks. Rice supplies are lowered 2.6 million tons to 681.7 million, primarily on reduced production forecasts for China, Thailand, and Vietnam. China's production is lowered 2.0 million tons to 147.0 million on record rainfall in the Yangtze River Valley during June and July causing severe flooding and reducing harvested area. Production for Thailand and Vietnam is reduced on decreased irrigation availability with low reservoir and river levels. Despite these reductions, 2020/21 world production remains record-high at 500.0 million tons. Global consumption is reduced by 1.9 million tons to 496.5 million, still a record, primarily on reductions for China, Brazil, and Nigeria. World trade is decreased 0.6 million tons to 44.3 million tons, mainly on export reductions for Thailand and China but remains well above last year's 41.5 million. Projected 2020/21 world ending stocks are lowered 0.6 million tons to 185.2 million, still a record, with China and India accounting for 63 and 21 percent of the total, respectively.

Floods in China and drought in Thailand and Vietnam have caused the USDA to lower its trade and ending stocks numbers, but all of the global numbers remain at record levels. The USDA reminds us that 63% of the world's ending stocks are in China, with another 21% in India. Without tapping those reserves, the world is not capable of responding to a large spike in demand.

In China, unseasonal excessive rainfall and flooding decrease crop prospects. USDA forecasts China's 2020/21 milled rice production at 147 million metric tons, down 1% from last month but up slightly from last year, and down 1% from the five-year average. Area is forecast at 29.8 million hectares, down 2% from the five year average. Yield is forecast at 7.05 metric tons per hectare, unchanged from last month, but down slightly from last year and up 1% from the five year average of 6.95 metric tons per hectare.



Unseasonably excessive rainfall and flooding in large parts of the lower Yangtze Valley have stoked fears of damage to the developing rice crop, prompting to lower China milled rice production by 2 million metric tons. Precipitation since early July has increased and persisted to more than 200 millimeters above normal for this time of the year across the southern Yangtze Valley, a core rice production area. Satellite data indicates severe flooding in the southern provinces of Yangtze Valley including Jiangsu, Anhui and Hubei. These provinces account for approximately 56 million metric tons, or 39% of total China rice.

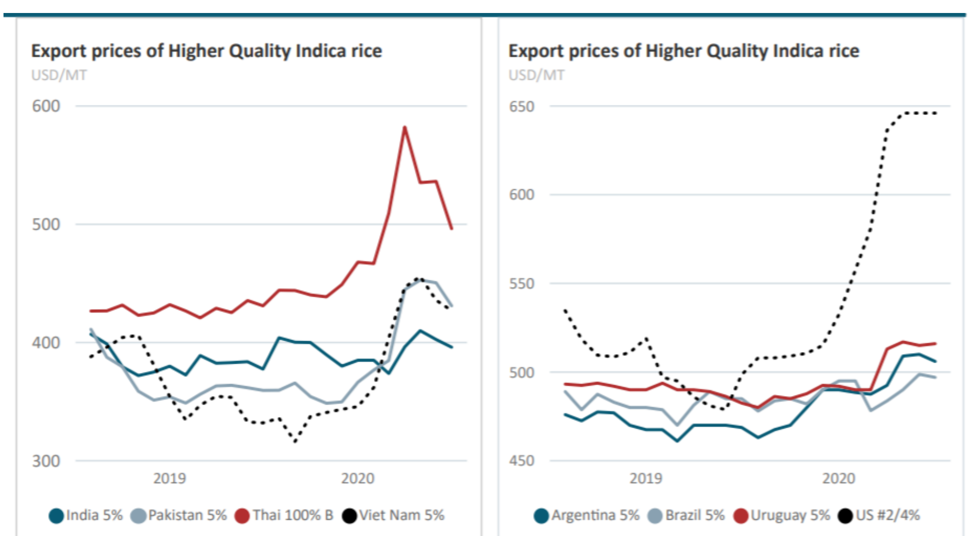
China has three rice plantings. The single rice crop, which accounts for 66 percent of total rice production, is planted in April to June; early-double rice (16%) is planted in April to May; and late-double rice (18%) is planted in July to August. Concerns about the impact of excessive rainfall and flooding are mainly focused on the single and early-double rice crops. The single and early-double rice crops are in mid-season and at advanced physiological growth stages of vegetative to reproductive. The flooding conditions have also led to planting delays for late-double rice with less than a month left in the optimum planting window.

The markets conditions are basically unchanged; prices remain decoupled from the rest of the field, in particular, India. The exception is Vietnam, as those two matrices are basically on par with one another. Buyers most everywhere are either taking a “wait ‘n see” attitude, or buying in a relatively short-term delivery window (see India segment). The big guys like The Philippines, Indonesia, Iraq, & Malaysia are among those on the sidelines. There has been an uptick in inquiry from West Africa, but very little involves interest in Thai rice due to price (mostly Indian).

Despite the pandemic, exports for the first seven months were down a mere 1.4% compared to 2019, at almost 4 million metric tons. It should be duly noted that revenues from said sales are up an impressive 11%. This pace, a predictable increase in offshore demand, combined with constantly improving loading conditions should easily put Vietnam over 7 million metric tons. Meanwhile, fresh inquiry is relatively thin, but we expect that to change in the weeks ahead, as there is pent-up demand waiting on opportunity to knock. Regardless, Vietnam has emerged as the second biggest exporter of rice, just ahead of Thailand and behind India.

The tone in the market is quite a bit livelier than described elsewhere. The primary reasons are four: 1- Buyers across the west coast of Africa are beginning to surface (see port situation reports below). 2- India has a record crop, along with large FCI stocks on hand. 3- India has the most competitive prices. 4- The sowing of the next Khariff crop is well ahead of schedule, advancing nicely in concert with robust monsoon rains. The one place Indian merchants are struggling with the most is the basmati trade, as Iran's financial misfortunes have deeply cut into their import needs, which are about 1 million metric tons or 25% of total sales by India. Like Iraq, they rely heavily on the sale of crude in order to provide a revenue stream to meet their basic needs. The other negative in the market is the restricted activity at the 8-port system account the Wuhan/virus-related loading issues. From where I sit, this will pass, and exports will resume at normal, or new normal, speed. Problems abound, no question; but the outlook is positive longer term.

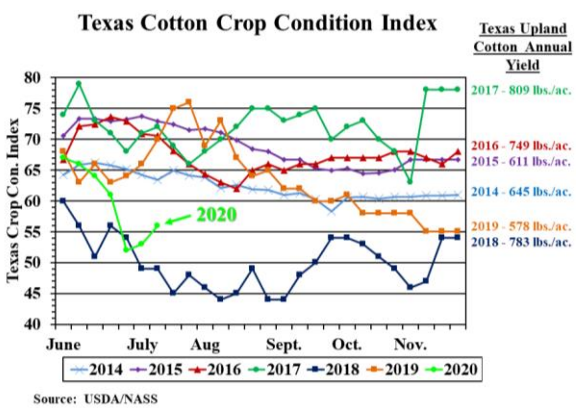
The FAO All Rice Price Index (2014-2016=100) averaged 110.3 points in July 2020, down 3.6% from June and a four-month low. July quotations declined in all the major rice market segments, except in the Japonica market, where they extended their stable streak into a fourth straight month. As measured by their respective indices, monthly falls were in the order of 2.9% for Indica prices, whilst glutinous values dipped by 5.6% and fragrant prices by 7.2%. Indica quotations in most Asian suppliers registered falls in July, amid generally quiet trading activities. Declines were particularly pronounced in Thailand, despite some support provided by a drought-hit crop. Weighed by competition with India, prices were likewise down in Vietnam and Pakistan, even if in Viet Nam the end of the early summer-autumn harvest capped losses, as did Pakistan. In India, concerns re-surfaced over logistical hurdles associated with COVID-19 containment measures. Nevertheless, prices of Indian whole-grain white rice subsided some more, influenced by conducive monsoon rains and strong planting progress, which bode well for the 2020 Kharif crop. Only parboiled and broken quotes tended to inch up in India, underpinned by strong African buying interest and, in the case of parboiled values, by news of officials in Bangladesh considering recurring to imports. In the Americas, US quotes were steady ahead of the 2020 harvest. Prices also moved in the major South American suppliers, where despite a slow-down in fresh orders and currency depreciations, a strong pace of sales earlier in the year and high domestic prices lent support to export quotes.

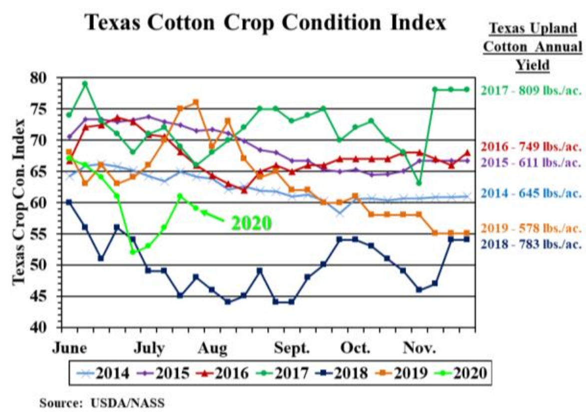


Cotton

Looking ahead, the cotton market has entered the last phase of weather market influence. July’s WASDE is the last report in which new crop production is based on historical average yield and abandonment data. It has been extremely hot and dry in the southern Plains, and a large amount of dryland acreage has most likely been plowed up. The effects of the heat and aridity on irrigated yields are probably bad, to what extent remains unknown, leaves room for lots of speculation, figuratively and literally/financially, about these variables.

Assuming the USDA’s figure of 12.2 million planted acres stands along with an average U.S. abandonment rate of 16% and yield of 820 pounds per acre, the resulting cotton crop would be in the neighborhood of 17+ million bales. Given that there may likely be a higher abandonment rate, the tradeoff is that as more dryland is plowed up, the average yield per harvested acre for both Texas and the U.S. will increase.

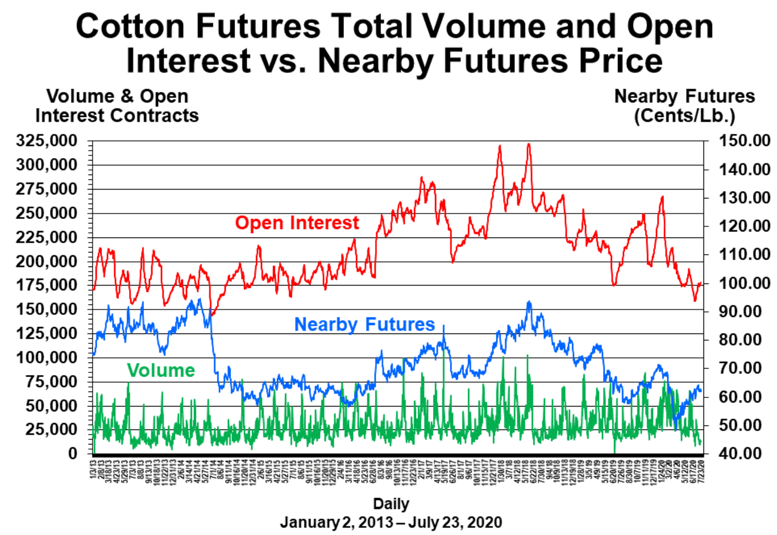




A major influence for the 2020/21 balance sheet is the huge projected carry-in (currently projected in excess of 7 million bales). Even with a smaller crop, the bottom line is still over six million bales of U.S. 2020/21 ending stocks. While that’s certainly not as bad as 8.0 million bales, it is not good. Fundamentally, it is a recipe for ICE futures to trade between 55 and 65 cents per pound. The marketing implication of all this is to view near term rallies in Dec '20 ICE cotton futures as a hedging or selling opportunity.

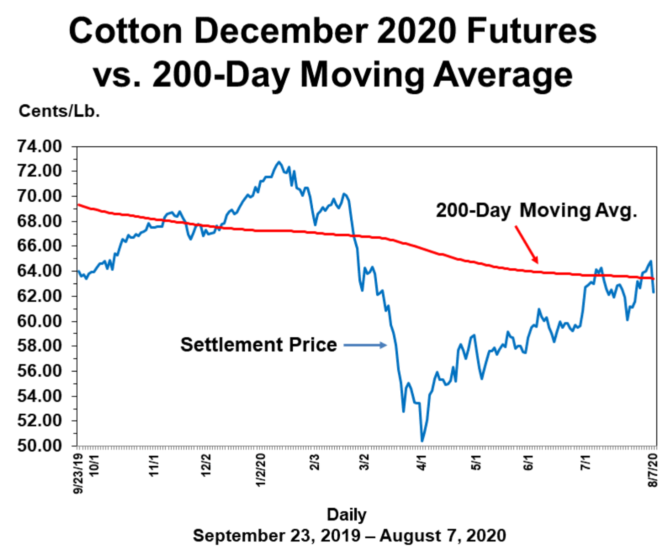
The weak dollar/stronger cotton price relationship has generally been the case except during very specific situations like a sustained weakening euro currency (e.g., late 2009/early 2010, and again in late 2011). Since 2015 the notably stronger dollar has been viewed as a headwind to cotton prices. The longer term rally in the U.S. dollar index since August 2014 has been attributed to improved U.S. economic prospects, improved U.S. trade balances, and expectations of higher U.S. interest rates.

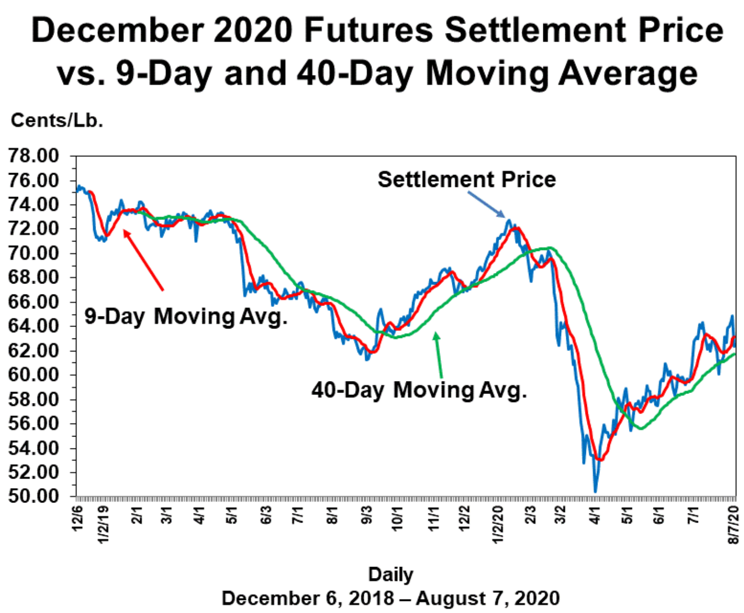
Open interest (the red line above) refers to the number of active positions at the end of the day (not double counting both the buyer and seller). Open interest by contract has a similar front month concentration as does volume, e.g., The Dec’20 and Mar’20 had 68% and 16% of the open interest as of July 23. Open interest does not fluctuate as much as daily volume, but there are patterns where sharp surges or declines in open interest are associated with sudden rallies or sell-offs (often accompanied by spikes in volume). The week ending July 23 saw a mostly flat pattern of open interest, associated with slightly rising, then slightly falling price settlements (in relatively low volume trade).



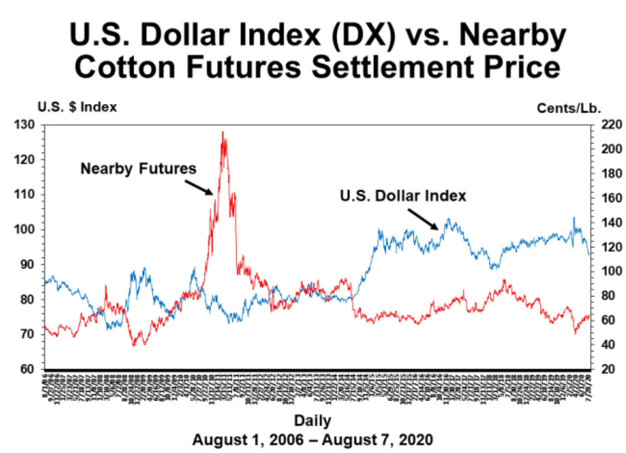
For the week ending Friday, August 7th, the ICE December 2020 cotton contract marched steadily higher, with solid trading volume and increasing open interest. This suggests new long positioning, which could have been influenced by various fundamental factors like declining crop condition ratings, hot/dry weather forecasts, and possibly 280,000 bales lost to Hurricane Hanna in the Rio Grande Valley. Other bullish influences included the technical breach of the 200 day moving average, continued weakening of the U.S. dollar, and inflation-motivated buying by index funds. The Tuesday snapshot of Commitment of Traders data showed a week over week increase in that the net long positions of index funds (new longs) and hedge funds (short covering).

Another approach is looking at a longer term moving average chart like the one below. When futures prices (in blue) cross the 200 day moving average (in red), that is typically noticed and cited by technical analysts as a meaningful price move. Such a signal occurred on July 8th, when December 2020 cotton futures settled above its 200-day moving average, setting the stage for "running the stops" and generating more technical buying. It happened again on August 3rd.





This graph compares the inverse pattern of nearby New York cotton prices (red) and an index (blue) of the U.S. dollar relative to a basket of six currencies: the euro, Japanese yen, British pound sterling, Canadian dollar, Swiss franc, and the Swedish krona. Those six countries and currencies have little to do with cotton economics. However, to the extent that U.S. dollar strength (for whatever reason) against these currencies coincides with U.S. dollar strength versus cotton exporting countries (e.g., Brazil, Australia, Central Asia, and sometimes India), then this chart may reflect situations where a strengthening dollar is directly associated with lower U.S. export competitiveness. There are periods of time in this chart where the inverse relationship breaks down, e.g., 2013. That period coincided with a time when European sovereign debt was weakening the euro relative to the dollar, which represents a distortion to what this chart is trying to explain. A potentially cleaner comparison would be of the U.S. dollar versus the Brazilian real or the Aussie dollar. The more cotton-specific impact of the U.S. dollar value on U.S. exports can be inferred from USDA calls trade-weighted exchange rate indices. These data suggest that the U.S. dollar got 6.4% stronger (year-over-year) in 2015 compared to the currencies of the specific countries that we trade cotton with. 2016 also saw a rise in the relative value of the U.S. dollar, but only around 4%. This means that U.S. cotton was roughly that much more expensive to foreign buyers compared to other cotton exporting countries.



For the week ending early Friday August 14th, the U.S. dollar index gyrated sideways before weakening at week's end. Dollar weakness this week was apparently influenced by political (congressional deadlock over virus relief spending) and economic (mixed U.S. retail sales data in July, stronger indicators in Japan).

Taken at face value, export sales appeared bearish, with old-crop net cancellations of 68,500 bales. However, with the 2019/20 crop marketing year ending, this is most likely a shifting of inventory into next year.

New crop sales were good at 130,800 bales bringing total 2020/21 commitments to one million bales more than at this same time year. China, alone, accounts for nearly three million when their unshipped purchases are added to their new crop purchases.

Considering this slight improvement in fundamentals, August 7th's action was somewhat unexpected. Once again, macro influences seem to carry greater weight than fundamentals at present. When the market broke 65 cents on Thursday, the trading volume collapsed, leaving too few buyers to keep it at this level or higher. Then on Friday, as the market drifted below Thursday's low and Wednesday's close, volume picked up and the selloff began.

Fueling the selling: renewed tension between the U.S. and China, a slight rise in the dollar, less-than-stellar unemployment numbers and, more importantly, the lack of Congressional action on a new stimulus package.

The commitment of trader's report issued Friday was very impressive ,though it only reflects Spec and Fund activity through August 4th. Even so, if not for Friday's action, this would have further encouraged the bulls. The funds hold their highest net long position since February 18th when the economy was still running on all cylinders.

Where do prices go from here? Although the crystal ball is a little cloudy, do not panic. Several events will occur this week which will greatly influence the market. These include the crop conditions report,

The August WASDE report was an unfavorable surprise to the market. Prices fell as a result. The production numbers were based on conditions as of August 1st. The numbers do not reflect events, good or bad, after that date until now. September and subsequent reports will offer revisions. Earlier this week, it was reported that crop conditions as of August 9th were down from a week earlier. The market (December futures) reacted up over 100 points from last Friday's disastrous day. Today, however, December dropped 129 points— wiping out those gains and actually closing below last Friday.

As of August 9th, the crop was rated 23% poor to very poor compared to 16% a week earlier. Texas was rated 35% poor to very poor compared to 24% a week earlier.

The USDA's initial cotton crop estimate is 890,000 bales above the average pre-report trade estimate but would be down 1.833 million bales from last year. The USDA estimates harvested cotton acres at 9.247 million, down 1 million acres from June. USDA puts the national average cotton yield at 938 lbs. per acre, which would be up 115 lbs. from last year. USDA estimates yields will rise in Texas and Georgia, which account for nearly 50% of U.S. cotton production, will rise significantly from last year. USDA estimates the Texas yield at 774 pounds per acre, up 196 pounds from last year and Georgia's yield at 1,003 pounds per acre, up 50 pounds from last year.

Old-crop cotton carryover is up 100,000 bales from last month. Domestic use for 2019-20 was cut 300,000 bales (to 2.2 million) and exports were increased 200,000 bales (to 15.4 million) to account for the 100,000-bale increase in carryover. The national average on-farm cash cotton price forecast was raised half-a-cent from last month to 59.5 cents per pound.

New-crop cotton carryover surprisingly increased 800,000 bales from last month to 7.6 million bales. That is 1.29 million bales above the average pre-report trade estimate. Total supplies are up 670,000 bales from last month, with a 580,000-bale increase in the crop estimate and 100,000-bale increase in beginning stocks. On the demand side, the USDA cut domestic use 100,000 bales (to 2.7 million) and left estimated new-crop exports unchanged at 15 million bales. Unaccounted use was cut 30,000 bales to -20,000 bales. The USDA puts the national average on-farm cash cotton price for 2020-21 at 59 cents per pound, unchanged from last month.

The US crop is now projected at 18.08 million bales—roughly 500,000 bales higher than July's estimate. Harvest acres were decreased 1 million acres compared to July, but the US average yield was bumped up over 100 lbs to 938 lbs per acre. As mentioned previously, given the weather issues that have plagued a large portion of this crop, an August number above 17.5 million bales would likely weaken prices.

Planted acres are subject to further revision but based on June estimates, Texas abandonment looks to be a whopping 42%; US at 24% determined largely by what happens in Texas.

Projected US cotton yield of 938 lbs per acre would be a new record- surpassing 2017. Nine states are projected to average 2 bales or more per acre. The projected state average yield of 774 for Texas would be the fourth highest ever, well above average.

Large abandonment takes out a lot of dryland and low-yielding acres resulting in a higher average yield.

Exports for the 2019 crop year were raised to 15.4 million bales—from 15 million in June to 15.2 in July and now to 15.4. As of July 30 (with just 1 day remaining in the 2019 crop marketing year), export shipments were 14.614 million "running bales". Assuming these bales weigh a "typical" 495 lbs, this would be equivalent to 15.07 USDA "statistical" 480-lb bales. For shipments to total 15.4 million 480-lb "statistical" bales, a "running bale" must be averaging 505 lbs.

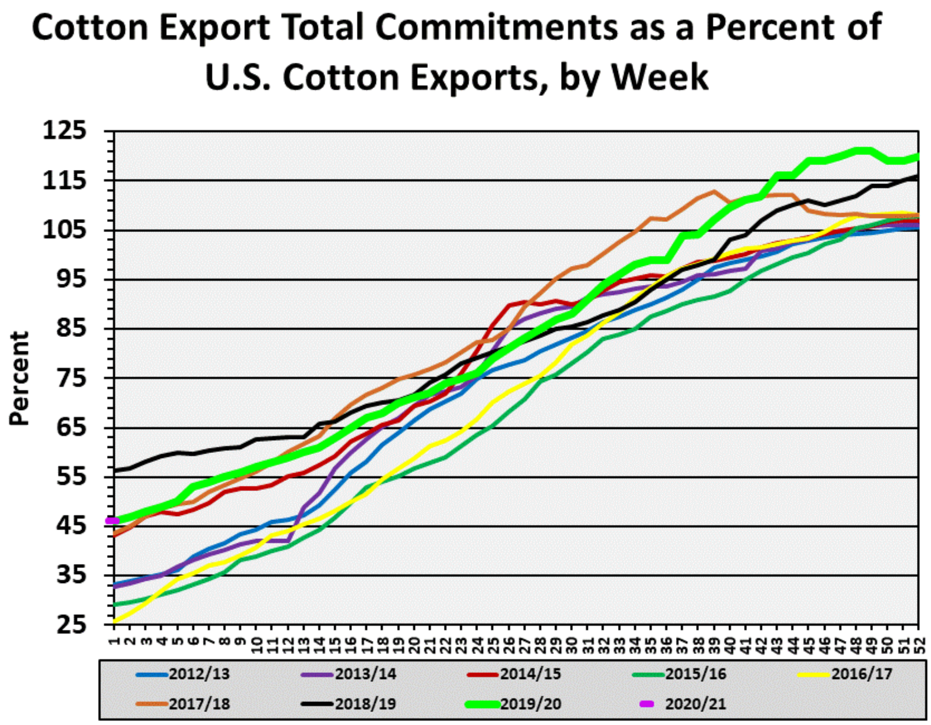
Futures extended losses after the USDA projected higher production and lower consumption, boosting U.S. ending stocks of the natural fiber for the 2020/2021 crop year. U.S. production for the 2020-21 crop was raised 3% to 18.1 million bales. The USDA cut harvested acreage by 1 million acres from last month but raised yield 118 lbs. to 928 lbs. per acre. The USDA also trimmed its domestic use forecast 100,000 bales to 2.70 million, resulting in ending stocks rising to 7.6 million bales, up 800,000 bales from last month and 400,000 more than estimates this past year.

Yet, the broad 57.50-65.00 cent trading range remains in place. The near-term will have to break below 61.50 cents to pressure the market lower. The market has tried time and again to breach the 65-cent level, failing each time. That resistance level has become very firm. Another failure by speculators to break above that level will likely mean a swift retreat to 61 cents and set up a forthcoming test of the 57.50 cent price support level.

If speculators tire of bumping heads with 65 cents, they will soon exit the market and it will drift lower and attempt to break below 57.50 cents.

The bearishness of the report was born out in the following: a significant increase in world carryover; a significant increase in carryover in world exporting countries; a significant increase in U.S. ending carryover; a significant increase in carryover in countries competing with the U.S. for export market share; and record-low annual U.S. cotton consumption.

Another indicator of export demand is the percent of U.S. export total commitments to USDA's forecasted export target of 15.0 million bales. Total commitments of all cotton as of July 31, 2021 include 284,237 bales worth of accumulated exports of all cotton, i.e., pima and upland sold and actually shipped. It also includes another 6,461,472 running bales of pima and upland sold but not yet shipped ("outstanding sales") — note that 42% of this were outstanding sales rolled over from the previous marketing year. The total of accumulated exports and outstanding sales is 6,745,709 running bales of total commitments which, after converting to statistical bales, is 46% of the USDA's 15.0 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).

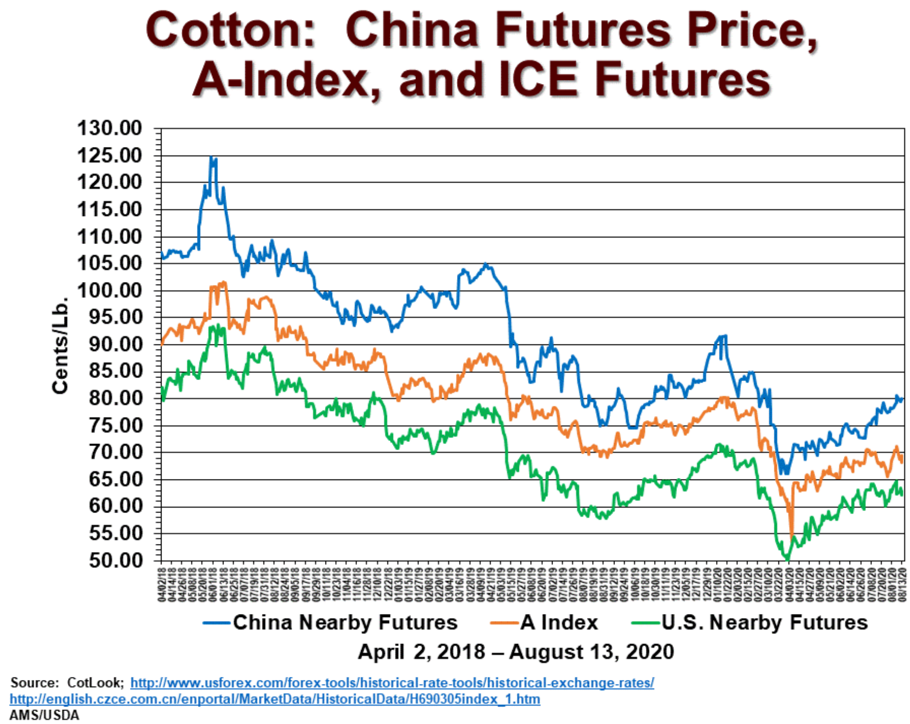


Source: USDA/OCE/FAS

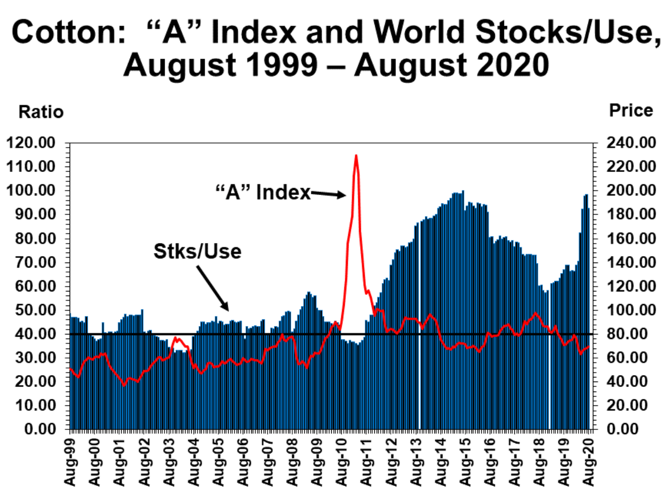
Strong demand for cotton at Chinese reserve auctions continues. China sold all of the 8,516 metric tons of cotton from its state reserves that it put up for auction this week for an average price of ¥11,612 ($1,658) per metric ton. In recent years, China has pared its bulging reserves of the fiber via such auctions. Demand for cotton at this year's auctions has been strong, with the average price up 1.9% from prices at the start of the month.

Bloomberg reports that China has amassed $1 billion glut of U.S. cotton it does not need. "Recent Chinese purchases have not been correlated with downstream demand," said Jon Devine, chief economist for Cotton Inc. "Much of that cotton is believed to be destined for the Chinese reserve system. If it moves into storage, it can be used against future demand and offset future purchases." With many clothing stores shuttered, China has little need for such large volumes of the crop. While China is buying up U.S. cotton at the highest rate since 2013, global consumption is expected to decline by 23 million bales, the steepest drop on record, according to USDA estimates.

The A-Index of world cotton prices (the yellow line) generally parallels ICE cotton futures (the green line) at a premium. China's internal cotton price (the blue line) is higher than world prices, in part from policy distortion. Their government reserve has been whittled down to less than 12 million bales, which reduces some of the artificial price support. The big remaining fundamental questions include: 1) What sized reserve will China maintain for the long-term? 2) What is their policy for rotating that reserve inventory? 3) How will China comply with the Phase One trade agreement?



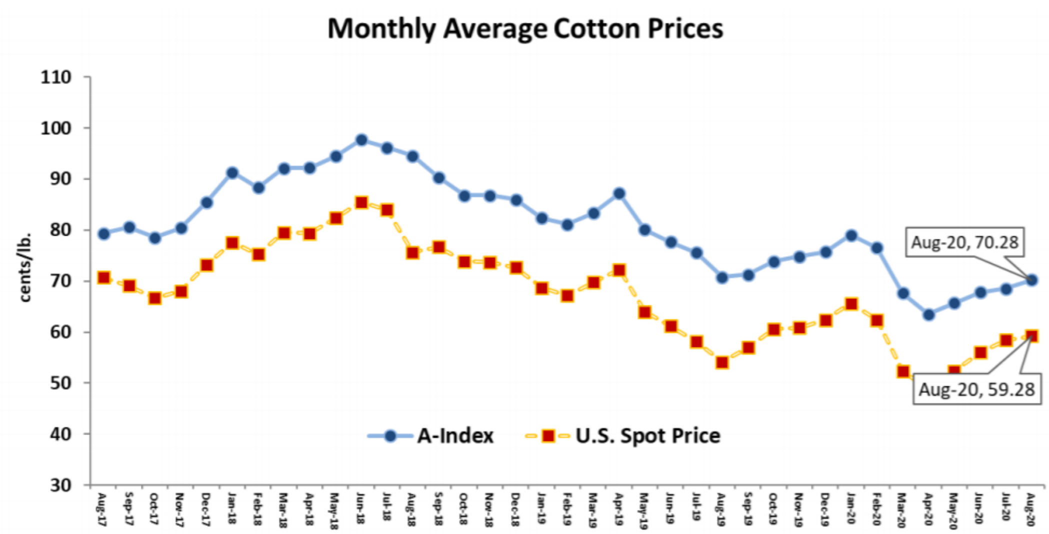
The following graph shows monthly world stocks-to-use estimates (in percent) matched against the A-index of world cotton prices (in cents per lb). As usual, stocks-to-use moves in the opposite direction from world prices. An apparent key threshold is 40% world stocks-to-use (dark horizontal line) which is the point where major trends in world prices (either up or down trends) tend to change direction. The massive build-up in world stocks, with over half of it represented by an out-of-circulation Chinese reserve, distorted the historical relationship between world price and world stocks-to-use. Then the subsequent whittling down of world ending stocks in recent years reflects the slow return to more balance supply and demand. More recently, the pandemic recession has caused a downshift in demand that has increased projected world ending stocks again.



Spot cotton quotations in July were 246 cents higher than the previous month, according to the USDA, Agricultural Marketing Service's Cotton and Tobacco Program. The average spot quotation in the seven designated markets for color 41, leaf 4, staple 34, MIC 35-36 and 43-49, strength of 27.0-28.9 grams per tex, and uniformity of 81.0-81.9 units was 58.46 cents per pound in July 2020. This compares with 56.00 from the previous month. The average basis for the base quality at the end of June was 429 points off the ICE October 2020 No. 2 futures contract. Spot transactions reported in the designated markets for July totaled 70,742 running bales.

Spot cotton quotations for color 41, leaf 4, staple 34, MIC 35-36, and 43-49, strength readings of 27.0-28.9 grams per tex, and uniformity of 81.0-81.9 units in the designated spot markets averaged 58.46 cents per pound in July. Quotations averaged 56.00 cents in June and 58.08 cents in July 2019. Daily average quotations ranged from a high of 60.57 cents on July 10 to a low of 55.67 cents on July 24.

Prices received by farmers for Upland cotton averaged 56.50 cents per pound in June. The price was 55.00 for the month of May and 68.20 cents in June 2019. These prices include cotton delivered against forward contracts. Both the A-index and U.S. spot price have continued to rise slowly and are now above the season averages. Crop conditions, especially in the largest producing state, Texas, remain a concern. According to USDA's weekly Crop Progress report 75% of the Texas crop is in "Fair" or poorer conditions as of August 2nd, compared to 54% last year. (NASS)



The end of July marked the transition from one marketing year to the next, and with it the disappearance of the 2019/20 Cotlook A Index. For the first half of the 2019/20 season, the Index's trajectory was steadily upward, in reflection of growing confidence that an agreement on trade issues would be reached between the United States and China. The high point for the season of 80.20 cents per lb was reached in mid-January, just as the Phase One trade agreement between Washington and Beijing was signed. However, prices subsequently underwent a precipitous decline as the implications of the Covid-19 pandemic became clear: The Index's low point of 59.15 cents per lb was registered on April 2nd. The final value for 2019/20, registered on July 31st, was 940 cent points above that nadir. The average for the season (August/July) was 71.33 cents per lb.

The summer doldrums were well to the fore in July, exacerbated by the unprecedented circumstances associated with the spread of Covid-19 that have cast doubt on the outlook for the global cotton yarn and textiles market in the season ahead. Spinners in several markets did cite a modest improvement overall in business conditions, with downstream orders increasing to an extent, but order books remain well below the levels that would be required to restore demand to its pre-pandemic state. Mill demand for raw cotton thus remained exceptionally slow and focused on supplies available for prompt or nearby shipment.

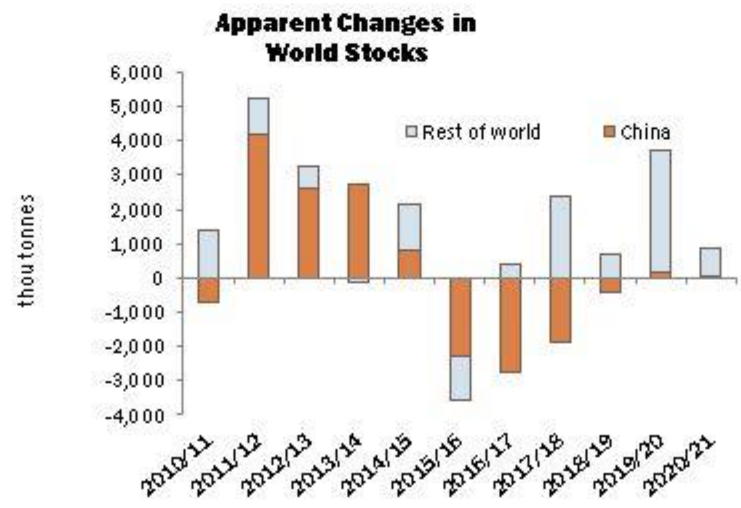
For spinners in China, a new source of supply appeared with the commencement of this year's State Reserve auction series at the start of July. Demand was strong throughout the month and daily catalogues (for cotton produced between 2011/12 and 2013/14) continued to sell out, to total a volume approaching 200,000 tonnes. Should the pace of sales maintain their current momentum, a cumulative total of well over 500,000 tonnes will be achieved by the conclusion of this year's auction series at the end of September. When set against the 371,000 tonnes of Xinjiang 2019/20 crop acquired by the reserve between December and March, a net reduction of State Reserve domestic cotton stocks may be in somewhere around 150,000 tonnes, though the Reserve has also been credited with import purchases in recent months, mainly directed to US cotton.

On the US export front, state-sponsored purchasing from China largely abated during the month, which brought into focus the relative paucity of demand from other markets. However, the volume of purchases carried over into 2020/21 looked set to total more than 3.4 million running bales (500 lbs), which when added to the purchases already made for shipment in the next marketing year means that nearby availability of US cotton remains rather tight.

The other noteworthy sales activity of the past month involved the disposal by the Cotton Corporation of India of around 700,000 local weight bales, mainly on the domestic market. The purchases were facilitated by attractive discounts under the Corporation's bulk purchase scheme and favorable payment terms, and at last made some dent in CCI's huge stocks, thought by late July to amount to some 11.3 million bales. The international trade's continuing reluctance to acquire CCI stocks in volume, despite their attractiveness vis-à-vis competing growths in terms of price and quality, was seen as symptomatic of the depressed state of demand in the raw cotton market more generally.

The global balance sheet continues to offer little in the way of optimism with regard to the outlook for prices in the medium term. The addition to world stocks at the end of the 2019/20 season was still placed by Cotlook at a daunting 3.72 million tonnes in our July assessment, down from almost 3.76 a month earlier, largely owing to a considerable reduction to output in India.

For 2020/21, Cotlook's global production figure was reduced by 190,000 tonnes, to 24,397,000, representing a year-on-year fall of around 5.3 percent. Washington's Planted Acreage report, released on June 30, informed our decision to reduce US production by 237,000 tonnes, as well as excessive heat and dryness in the important West Texas growing region. Reductions were also made to some African Franc Zone countries, where sowing is expected to fall short of expectations. Conversely, a substantial increase was made to the figure for India, where abundant monsoon rainfall and a higher Minimum Support Price have spurred planting across much of the cotton belt. Nationwide, the figure by late July was already approaching the record final area attained last year.



U.S. Dollar Index and the Relationship to Commodity Markets

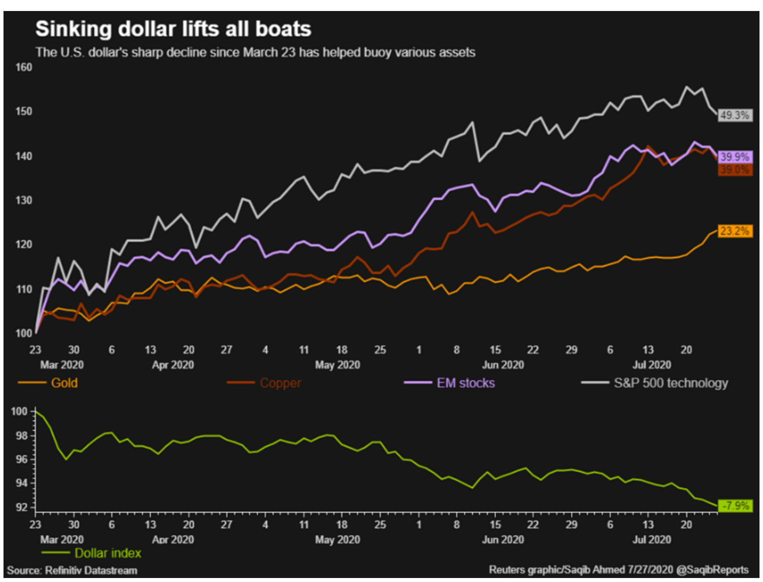
Aside from ag contracts specifically, few markets get looked at by commodity traders more than the U.S. Dollar Index. The performance over the last few weeks has been encouraging for bulls as the global reserve currency has fallen to fresh lows for the move and is trading at the lowest levels since July 9, 2018. With overnight trade, the dollar has also pushed through the 61.8% retracement of the entire 88.2530 to 102.9920 rally from the 2018 lows to the 2020 highs. In our technical opinion, there is no meaningful support between spot prices and the 2018 lows. If the U.S. Dollar Index were to continue falling to those 2018 lows, it would be broadly supportive to commodities generally and ag markets specifically. As the dollar falls, commodities priced in dollars become cheaper for overseas buyers, stoking exports. From a wave count perspective, it looks as though the dollar is seeing the fifth and final wave unfold as part of a larger five-wave Elliot sequence.

The U.S. Dollar Index has made fresh 2-year lows with all indicators and patterns pointed at additional losses in the days and weeks ahead.

Aside from the U.S. Dollar Index, the Bloomberg Commodity Index (BCI) is another important basket we follow to help gauge the overall strength or weakness of the commodity sector. It would stand to reason that as the dollar has gotten weaker, the value of commodities would get stronger. That has been true in this case with the BCI trading at the highest level since March. The strength in the BCI has been much less than the weakness in the dollar, however, with the BCI having recovered roughly 38.2% of the entire December-March sell-off. Propelling much of the strength inside the BCI has been the rally to multi-year highs in precious metals and the recovery in energy markets as crude oil climbed back over $40 per barrel (bbl). The tail does not wag the dog in this case, so for the BCI to continue higher, individual commodities will have to continue producing strength. If weakness persists in the U.S. Dollar Index, the biggest benefactors should be precious metals as a hedge against inflation as well as agriculture commodities as import demand rises for the relatively cheaper good.

The U.S. dollar fell to a two-year low against a basket of six currencies on Wednesday, July 29th, as pressure built on the Federal Reserve to strike a dovish policy stance at today's press conference after its two-day meeting amid a surge in coronavirus cases. Investors will also be watching for any indications that the Fed will increase its purchases of longer-dated debt, implement yield caps or target higher inflation than previously indicated. The dollar has weakened more than 3% since the last Fed meeting as yields on benchmark U.S. Treasury debt have fallen more than 20 bps since then. U.S. consumer confidence fell more than expected in July, losing steam following two months of recovery, in another sign that rising COVID-19 infections are cutting into consumption.

The U.S. Dollar has now fallen more than 10% since March, and with all the abrupt changes to policy-making (thanks to COVID-19), Goldman Sachs came out yesterday with a note that warned about the growing decline of the U.S. Dollar as the go-to global currency. More notably, as shown by Reuters below, a decline in the U.S. Dollar has helped support various other asset classes, but it is also made it cheaper for those development countries to pay off U.S. Dollar-denominated debt. This decline makes U.S. agricultural goods more competitive in the world marketplace. If an international buyer (i.e. China) bought 1 million metric tons of U.S. corn back in January, it would have cost them about $170M USD out of the Gulf of Mexico. Now, that same 1 million metric tons now only costs about $150M USD. Thus, you can buy the same amount of grain for about $20 less (12 percent less) than what you would have paid just a few months ago. This is a clear reminder that when a currency moves like this to the downside, it increase the purchasing power of other countries.



Bullish expectations in 2020? As we enter August, it is no surprise that 2020 has been cruel to commodity prices in general and to grains, in particular. Coming at a time when surpluses were already common for a broad array of crops, COVID-19 pulled the rug of demand out from under markets and was followed with another hit of recent selling, encouraged by favorable crop weather.

Year-to-date percentage changes in commodity prices show just how pervasive the damage has been as 14 of a list of 18 commodity prices still show negative returns for the year, as of August 6th. As far as the coronavirus is concerned, most of the price damage was done by late April and several commodities have had decent rebounds since.

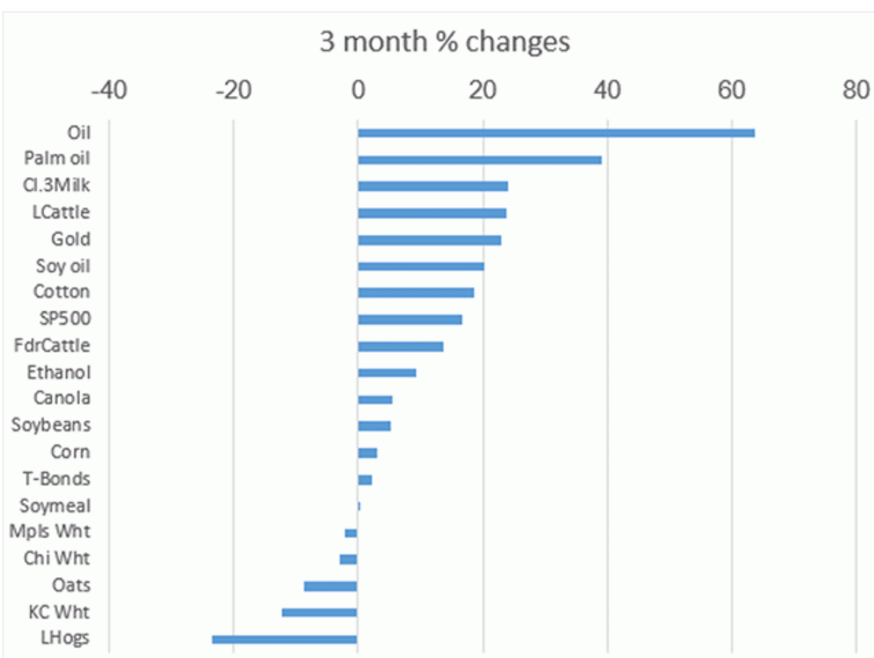
There is an old adage that says it is not the news that's important, but how prices respond to the news. The saying has room for debate, but it is also true that the commodities that rebound from a bearish hit the quickest are often the leaders in the next market phase.

In the past three months, spot crude oil and spot gold prices are two non-ag commodities that have done extremely well. Crude oil is up 64%, thanks to production cuts by a large group of OPEC and non-OPEC oil producers. Gold is up 23%, trading at all-time highs while COVID-19 concerns keep the Federal Reserve committed to an accommodative monetary policy.

Cotton is up 19% since early May, edging out the S&P 500 by 2 percentage points over the same period and attracting positive attention from noncommercials. Cotton prices had been depressed by plentiful U.S. supplies and the trade dispute with China but have gotten more support lately from this year's lower crop ratings and drought in Texas.

With the way things started, 2020 may turn out to be one of the most bearish years in U.S. ag history. The track record of the past three months, however, shows that even this year can have some bullish possibilities.

As of Aug. 6, 2020, five ag commodities with positive returns outperformed the S&P 500 and show bullish potential for the rest of 2020. (DTN ProphetX chart).



U.S./China Phase 1 Trade Agreement

With nearly seven months gone, an ambitious $36.5 billion target for Chinese imports of U.S. farm goods this year may not be quite out of reach, but it is looking like a big, big stretch," says a Reuters article. "By end-May, imports were running behind 2017 levels — rather than 50% ahead as needed — and while orders for China's main farm import, soybeans, have started to pick up, scorching levels of buying would be needed to hit the mark." While trade has increased over the past eight weeks, with Chinese companies booking more than $2.5 billion in U.S. soy purchases, imports really have to speed up in the second half of 2020 to hit trade deal goals. China may still not violate the deal if it misses the target due to the coronavirus (the trade pact grants flexibility in the event of "a natural disaster or other unforeseeable event").

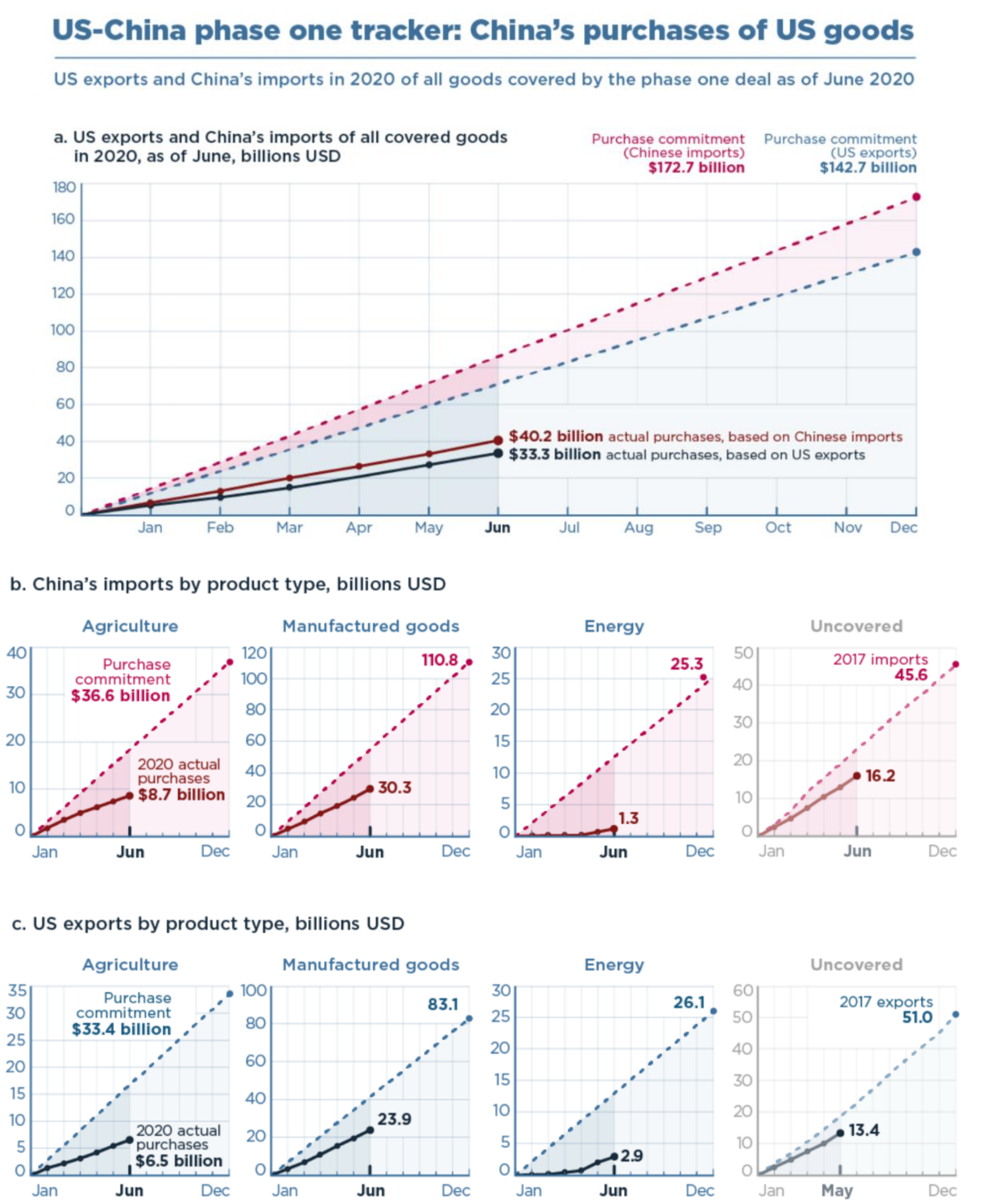
The Peterson Institute for International Economics (PIIE) notes that through June 2020, China's year-to-date total imports of covered products from the United States were $40.2 billion, compared with a prorated year-to-date target of $86.3 billion. Over the same period, US exports to China of covered products were $33.3 billion, compared with a year-to-date target of $71.3 billion. Through the first six months of 2020, China's purchases of all covered products were thus only at 47 percent (US exports) or 47 percent (Chinese imports) of their year-to-date targets.

For covered agricultural products, China committed to an additional $12.5 billion of purchases in 2020 above 2017 levels, implying an annual target of $36.6 billion (Chinese imports, panel b) and $33.4 billion (US exports, panel c). Through June 2020, China's imports of covered agricultural products were $8.7 billion, compared with a year-to-date target of $18.3 billion. Over the same period, US exports of covered agricultural products were $6.5 billion, compared with a year-to date target of $16.7 billion. Through the first six months of 2020, China's purchases were thus only at 39 percent (US exports) or 48 percent (Chinese imports) of their year-to-date targets.

For covered manufactured products, China committed to an additional $32.9 billion of purchases in 2020 above 2017 levels, implying an annual target of $110.8 billion (Chinese imports) and $83.1 billion (US exports). Through June 2020, China's imports of covered manufactured products were $30.3 billion, compared with a year-to-date target of $55.4 billion.

For covered energy products, China committed to an additional $18.5 billion of purchases in 2020 above 2017 levels, implying an annual target of $25.3 billion (Chinese imports) and $26.1 billion (US exports). Through June 2020, China's imports of covered energy products were $1.3 billion, compared with a year-to-date target of $12.6 billion. Over the same period, US exports of covered energy products were $2.9 billion, compared with a year-to-date target of $13.1 billion. Through the first six months of 2020, China's purchases were thus only at 22 percent (US exports) or 10 percent (Chinese imports) of their year-to-date targets.

For all uncovered products—making up 30 percent of China's total goods imports from the United States and 39 percent of US total goods exports to China in 2017—the phase one agreement does not include a legal target. Through June 2020, China's imports of all uncovered products from the United States were $16.2 billion, 30 percent lower than over the same period in 2017. (US exports of all uncovered products to China through May were $13.4 billion, 28 percent lower than over the same period in 2017. The June data for uncovered products will be available on August 5, 2020.)



China's purchasing managers index (PMI) climbed from 50.9 points in June to 51.1 points in July, with values above 50 reading signaling ongoing expansion in the country's manufacturing sector. Analysts had expected the PMI to edge down to 50.7 points. This is the fifth month in a row the PMI has held in expansion territory. China's official nonmanufacturing purchasing managers index remained in positive territory thanks to robust activity in the property and investment sectors, which fueled construction. The sub-index for production edged 0.1 points higher to 54.0 in July, with new orders rising 0.3 points to 51.7 points.

The WTO will rule on a U.S. request to hit China with $1.3 billion worth of Chinese goods. The WTO will appoint an arbitrator to rule on a U.S. request to slap retaliatory duties on $1.3 billion worth of Chinese goods in a dispute over China's subsidies for wheat, corn and rice producers, a WTO official said on Wednesday. Washington says Beijing has not complied with a 2019 WTO ruling against Chinese agricultural support programs in a case brought late in the Obama administration in 2016. China did not appeal the decision, and the U.S. agreed to give Beijing until the end of June 2020 to comply.

On July 29th, China officially rejected U.S. claims that China had failed to comply with a 2019 WTO ruling against China's price supports for its wheat and rice farmers — subsidies that U.S. farmers say hurt international trade.

The U.S. recently requested WTO authorization to hit China with "countermeasures" worth $1.3 billion, and China railed against the request during Wednesday's meeting of the WTO's Dispute Settlement Body. It is still unclear whether or not the WTO would agree that China is not complying with the original ruling handed down last year. Under normal circumstances, the disagreement would be handed over to a WTO compliance panel, which can be appealed. But the WTO's appellate body has been effectively shut down because the U.S. refuses to approve new appeals court judges.

Another potential route is for both sides to ask for an arbitration panel, which could issue a final ruling that cannot be appealed. A WTO dispute panel ruled in 2019 that China was unfairly calculating its support prices for wheat and rice farmers, pushing subsidies far higher than it was allowed in 2012 through 2015. China did not appeal the ruling and the U.S. accepted the win the case that it began in 2016.

Overview of the COVID-related HEROES and HEALS Acts

Negotiations continue on another round of relief although there is much finger pointing and blame from both parties amidst the search for common ground. The House version of relief, the HEROES Act, costs nearly $3.5 trillion, while the Senate version of relief, the HEALS Act, costs approximately $1 trillion. From a federal budget standpoint both bills are generally considered emergency spending and therefore add to the current federal debt of somewhere around $23 trillion. The difference in the cost of the bills highlights the different approaches to relief, with Democrats supporting a more expansive response, while Republicans are proposing a more limited approach.

Two major sticking points appear to be Republican opposition to extending the $600 weekly unemployment benefit, which Republicans say disincentivizes workers from returning to their jobs, and Democratic opposition to liability protection for employers from virus-related medical claims, which Democrats say would deprive workers of legal rights when they return to their jobs.

With a scheduled August recess beginning the end of next week, it is highly uncertain if Congressional leaders will be able to reach a bipartisan aid deal to address the pandemic by the end of next week. The Administration has proposed going forward with a modest coronavirus aid package which would extend unemployment benefits expiring this week, along with a moratorium on evictions from federally backed housing. The proposal would provide some immediate relief for two of the most pressing concerns while allowing more time for negotiations on a larger response package. Reports indicate that it was met with little support/enthusiasm.

For all the differences between HEROES/HEALS, there are areas of agreement, such as another round of direct payments to individuals, tax credits for companies to keep workers on payroll, and aid to families with children, to name just a few.

Both HEROES and HEALS contains ag directed relief. A major difference is the approach taken in the HEALS Act. For example, the agriculture provisions contained in the HEALS Act largely leaves the details of providing the $20.5 billion for agricultural producers, growers, and processors impacted by the coronavirus up to the Secretary of Agriculture. There are those who would prefer to provide more direction to the Secretary in the provision of funding.

The American Farm Bureau noted that other than the most obvious difference between the HEALS Act and the HEROES Act – the price tag – the two bills also diverge on how they handle agriculture. Still, there is some considerable overlap. Both acts provide billions in additional support for agricultural producers, HEALS at $20 billion and HEROES at $16.5 billion in direct support and as much as $33 billion as estimated by the Congressional Budget Office when considering other agricultural relief and conservation efforts in the HEROES act, i.e., Food and Agriculture in the HEROES Act and Reviewing the Proposed Expansion of the SHIPP Cropland Set-Aside Program.

The HEROES Act contains considerably more detail on what the funding is for, such as prescribing payment rates and the methodology for funding depopulation indemnities and agricultural processors such as textile mills and ethanol plants, or the expansion of conservation set-aside programs, where the HEALS Act excludes an expansion of the SHIPP cropland set-aside program, and is more broadly written, allowing the USDA more discretion on how the support should be distributed.

Both bills contain support for producers who were forced into the difficult situation of having to euthanize their animals. The HEALS Act specifically includes language providing support to "livestock and poultry depopulated due to insufficient processing access," while the HEROES Act directs the Agriculture secretary to make payments to covered producers to offset losses related to the intentional depopulation of market-ready livestock and poultry due to insufficient regional processing access. For the first month following an initial date set by the secretary, the payment rate will reimburse a producer for 85% of the losses determined by the secretary. For each subsequent 30-day period, the payment rate will decline by 10% of the value of the losses.

Given the broad language in the HEALS Act, support to biofuels producers and textile mills could potentially be another area where the bills agree. The broad language under HEALS could extend some of the $20 billion allocated to the secretary to these two sectors. The HEROES Act more specifically spells out the support offered to these sectors, including direct assistance to the biofuels industry through the Renewable Fuel Reimbursement Program. Any entity or facility that produced renewable fuel or advanced biofuel in 2019, including corn starch ethanol, is qualified to receive a direct payment of 45 cents per gallon of fuel produced between January 1, 2020 and May 1, 2020. If the facility idled production during this period, it is eligible to receive $0.225 per gallon for the amount produced during the same time period in 2019. Also in the HEROES Act is a direct payment to domestic users of upland cotton and extra-long-staple cotton, regardless of the origin of the crop, for 10 months beginning on March 1, 2020, through December 31, 2020. The payment can only be used for operating expenses.

While the HEALS and HEROES acts arrive at the same destination in terms of support for poultry, producers who had to depopulate animals, biofuel and textile processors, the HEROES Act is much more prescriptive with provisions that single out support for dairy processors and dairy producers, and provides for a massive expansion of the 2018 farm bill's Soil Health and Income Protection Program.

President Trump on August 8th signed four executive orders aimed at helping Americans cope with the economic fallout from the pandemic, following the collapse in talks with Democrats Friday over a rescue package.

One order would partly renew unemployment benefits included in a previous stimulus package which expired last month.

The president also signed an order that would suspend the payroll tax, something he had wanted to do before the recent talks with Congress.

The final two executive orders would make it harder for landlords to evict tenants struggling to pay their rent or mortgages and would also ease the burden on students carrying education-related debt.

The president said the orders:

1. Defer payroll taxes retroactively from Aug. 1 for Americans earning less than $100,000 a year. Trump said if he wins re-election, he would seek to extend the deferral and somehow "terminate" the tax.

2. Implement a moratorium on evictions and give financial assistance to renters.

3. Add $400 per week in extra unemployment benefits through the end of 2020 and requires states to cover 25% of the additional benefits. The extra weekly benefits would be available until Dec. 6, about a month after the Nov. 3 general election, or until the disaster fund's balance drops to $25 billion, according to the executive action.

4. Postpone student loan interest and payments through the end of 2020.

Both sides said on August 7th they will only come back to the table when the other side has something new to offer. Republicans proposed a $1 trillion plan, while Democrats asked for $3.4 trillion before lowering their request to $2 trillion via "budget gimmicks," according to White House officials. "They said they couldn't go much above their existing $1 trillion," Senate Minority Leader Chuck Schumer (D-N.Y.) said. Pelosi said: "I told them come back when you are ready to give us a higher number." Democrats said they had cut the cost of the package only by moving up expiration dates of relief programs, not cutting the amount of aid they want to provide. White House Chief of Staff Mark Meadows dismissed that as a budget gimmick. "They can't come up with any significant cuts in their bill," he said. "What they want is a $2.5 trillion blank check." Meadows said Democrats have not budged at all in their demands for giving state and local governments $915 billion or for extending enhanced unemployment benefits at $600 per week. Schumer said House Democrats would not have the votes to pass a bill that dips below $2 trillion.

Perspective: No one at this stage is ruling out further negotiations. Ag industry stakeholders are closely watching the situation as their hoped-for additional direct payments and other assistance such 2020-crop aid, indemnity payments for livestock producers and possible relief for the biofuels sector could be delayed or dealt a more sustained blow. The White House could authorize the USDA to tap the Commodity Credit Corporation (CCC) or perhaps utilize Treasury Department funding for some aid, contacts advise.

USDA CFAP Signup; Deadline Extended; and Crawfish Assistance Included

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 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 USDA announced they have **extended the deadline to apply to September 11**. Additionally, producers with approved applications will receive their final payment.

The USDA announced on August 11 that catfish, largemouth bass and carp sold live as foodfish, hybrid striped bass, red drum, salmon, sturgeon, tilapia, trout, ornamental/tropical fish, recreational sportfish, and

crawfish are eligible for CFAP assistance. Producers of eligible aquaculture commodities can begin submitting CFAP applications the week of August 17.

CFAP payments for crawfish are the sum of: crawfish sales from January 15, 2020, through April 15, 2020, multiplied by the CARES Act payment rate; **and** crawfish inventory that was not sold as of April 15, 2020, due to lack of market and will not be sold in calendar year 2020, multiplied by the CCC payment rate. Rates are listed in the table below for crawfish. Additional information is available at https://www.farmers.gov/cfap/aquaculture.

Commodity	*Unit of Measure*	*CARES Act Payment Rate ($/unit)*	*CCC Payment Rate ($/Unit)*
Crawfish	Pound	$0.65	$0.05

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	$12.00	$14.00	$2.00
Medium Grain Rice	$11.70	$14.00	$2.30
Seed Cotton	$0.3056	$0.3670	$0.0614
Soybeans	$8.55	$8.40	--
Wheat	$4.58	$5.50	$0.92

*national marketing year average (MYA) prices reflect the midpoint price level from the August 12, 2020 WASDE report.

PLC Farm Program Payment Projections - 2020 CY

Covered Commodity	*2020/21 MYA Price**	*Effective Reference Price*	*2020 CY PLC Payment Rate*
Corn	$3.10	$3.70	$0.60
Grain Sorghum	$3.10	$3.95	$0.85
Long Grain Rice	$11.60	$14.00	$2.40
Medium Grain Rice	$11.50	$14.00	$2.50
Seed Cotton	$0.2989	$0.3670	$0.0681
Soybeans	$8.35	$8.40	$0.05
Wheat	$4.50	$5.50	$1.00

*national marketing year average (MYA) prices reflect the midpoint price level from the August 12, 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	$12.00	$14.00
Medium Grain Rice	$11.70	$14.00
Seed Cotton	$0.3056	$0.3670
Soybeans	$8.55	$9.63
Wheat	$4.58	$5.66

*national marketing year average (MYA) prices reflect the midpoint price level from the August 12, 2020 WASDE report.

ARC-CO Farm Program Price Parameters - 2020 CY

Covered Commodity	*2020/21 MYA Price**	*2020 ARC-CO Benchmark Price (5-yr Olympic Average)*
Corn	$3.10	$3.70
Grain Sorghum	$3.10	$3.95
Long Grain Rice	$11.60	$14.00
Medium Grain Rice	$11.50	$14.00
Seed Cotton	$0.2989	$0.3670
Soybeans	$8.35	$9.25
Wheat	$4.50	$5.50

*national marketing year average (MYA) prices reflect the midpoint price level from the August 12, 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, Daniels Trading. 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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