



July Market Update

Corn, Soybeans, Rice, and Cotton

Dr. Michael Deliberto

Louisiana State University Agricultural Center
Department of Agricultural Economics & Agribusiness

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WASDE Summary

The 2020/21 U.S. corn outlook is for sharply lower supplies, reduced feed and residual use, increased food, seed, and industrial use, and lower ending stocks. New crop corn beginning stocks are raised 145 M bushels, based on lower use forecasts for old crop. Feed and residual use for old crop corn is lowered based on disappearance during the first three quarters of the marketing year as reported in the June Grain Stocks report. Food, seed, and industrial use is lowered 45 M bushels. Corn used for ethanol is lowered 50 M bushels based on reported use to date and weekly ethanol production data reported by the Energy Information Administration during the month of June and into early July.

For 2020/21, corn production is forecasted 995 M bushels lower based on reduced planted and harvested areas from the June *Acreage* report. The national average corn yield is unchanged at 178.5 bushels per acre. During June, harvested-area weighted precipitation for the major corn producing states as reported by the National Centers for Environmental Information was below normal, but did not represent an extreme deviation from the 1988 to 2019 average. Silking, as reported in the Crop Progress report, is slower than the recent historical average and for much of the crop the critical pollination period will be during middle and late July. Projected feed and residual use is lowered 200 M bushels, reflecting a smaller crop and higher expected prices. Food, seed, and industrial use is raised 25 M bushels. With supply declining more than use, stocks are lowered 675 M bushels to 2.6 B. The season-average corn price received by producers is raised \$0.15 to \$3.35 per bushel.

Soybean changes for 2019/20 old crop balance sheet include higher crush, lower residual use, and higher ending stocks. Soybean residual use is reduced 50 M bushels, reflecting June 1 soybean stocks reported in the recent Grain Stocks report, and reported soybean use through May. Soybean ending stocks for 2019/20 are projected at 620 M bushels, up 35 M from last month.

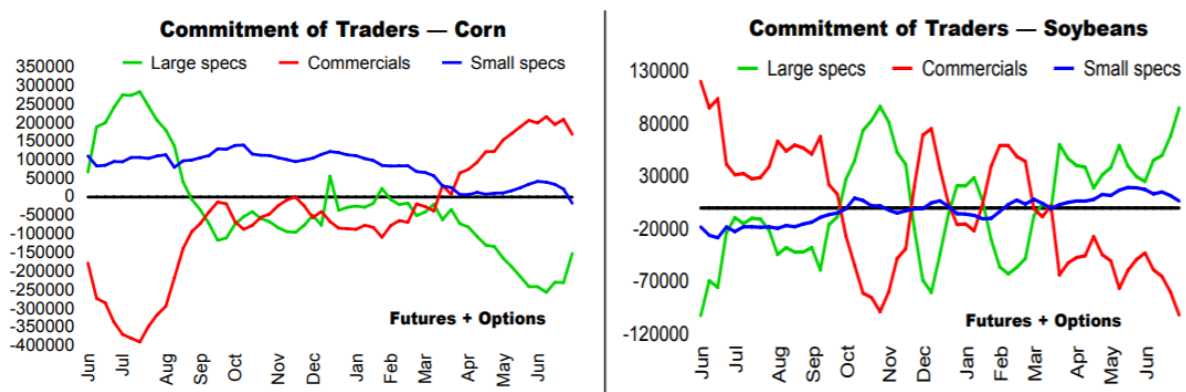
U.S. soybean production for 2020/21 is projected at 4.14 B bushels, up 10 M on increased harvested area. Harvested area, forecast at 83.0 M acres in the June *Acreage* report, is up 0.2 M from last month. The soybean yield forecast is unchanged at 49.8 bushels per acre. With higher beginning stocks, 2020/21 soybean supplies are raised 45 M bushels. Soybean crush is raised 15 M bushels reflecting an increase in domestic soybean meal disappearance which is raised in line with an increase for 2019/20. With projections for exports unchanged, 2020/21 soybean ending stocks are increased 30 M bushels to 425 M.

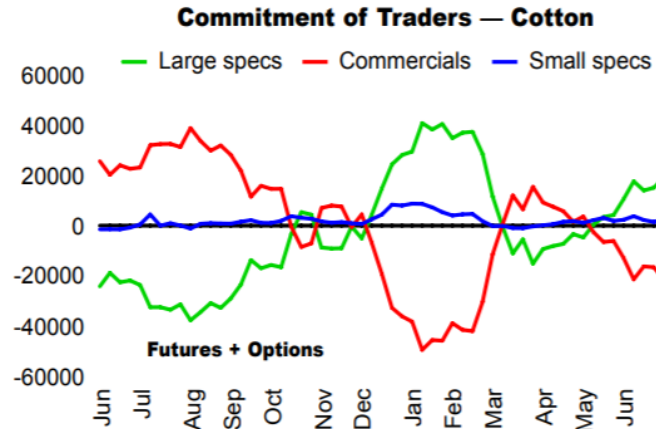
The U.S. season-average soybean price for 2020/21 is forecasted at \$8.50 per bushel, up \$0.30 partly reflecting higher price expectations following the *Acreage* report. The soybean meal price is projected at \$300.00 per short ton, up \$10.00 from last month. The soybean oil price forecast is unchanged at 29.0 cents per pound.

The outlook for both 2019/20 and 2020/21 U.S. rice is for increased supplies, higher domestic use, and lower exports while ending stocks are reduced for 2019/20 and increased for 2020/21. All rice supplies for 2020/21 are raised 3.5 M cwt this month based on a 4.5 M cwt production increase and a 1.0 M cwt import increase, which are partially offset by a 2.0 M cwt reduction in beginning stocks. The *Rice Stocks* report, and surging imports, implied significantly higher domestic and residual use than previously estimated for 2019/20. Imports for both 2019/20 and 2020/21 are raised to record-high levels, primarily reflecting strong demand for imported Asian aromatic varieties. Long-grain production for 2020/21 is raised 6.3 M cwt to 161.8 M on increased planted acreage, and combined medium- and short-grain production is lowered 1.8 M to 58.9 M on reduced area, based on the *Acreage* report. Rising domestic and residual use is expected to continue in 2020/21. Exports for 2019/20 are lowered 1.5 M cwt on continued uncompetitive prices for U.S. long grain as well as recent cancelations of outstanding sales; 2020/21 exports are lowered 1.0 M cwt (though still up 3.5 M cwt from the previous market year) on expectations of continued strong international competition for long grain exports. All rice ending stocks for 2020/21 are raised 0.5 M cwt to 43.8 M. The season average long grain price is reduced \$0.20 per cwt to \$11.60. The southern medium grain rice price is reduced \$0.30 per cwt to \$11.50.

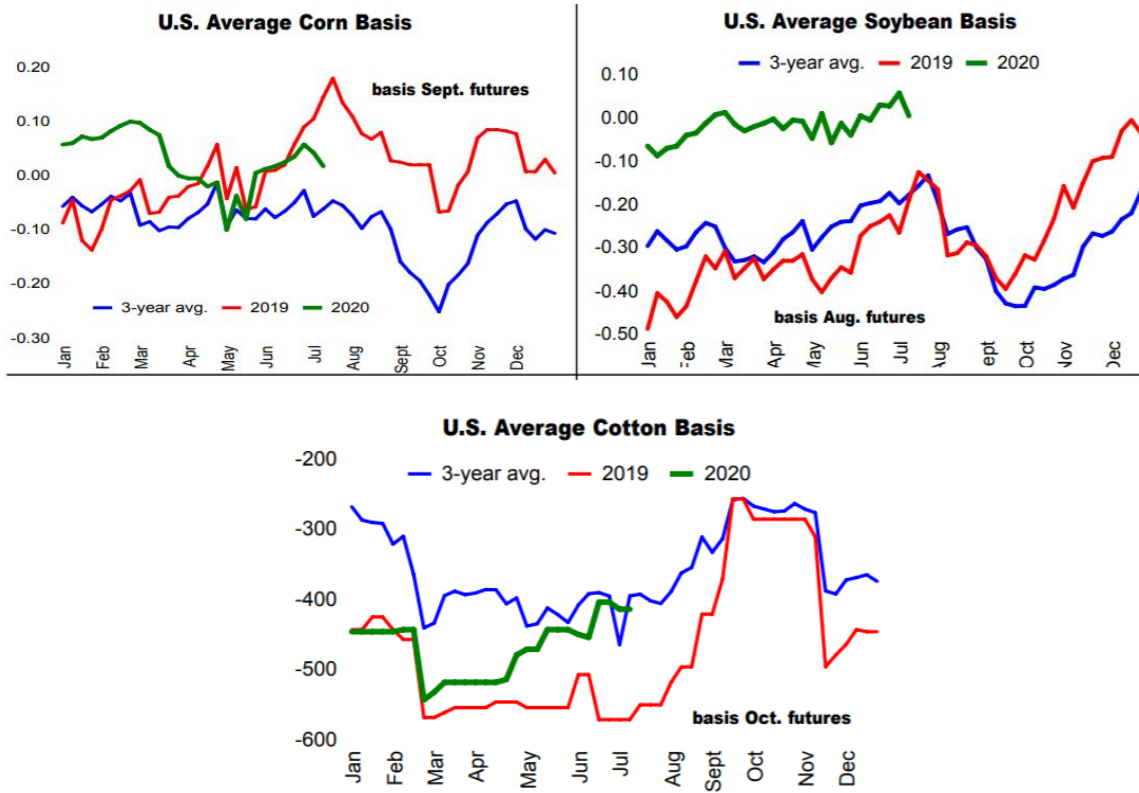
Projections for cotton in the U.S. for 2020/21 are that production, exports, and stock levels will be lower when compared with last month. Beginning stocks are 200,000 bales lower due to higher 2019/20 exports, but exports in 2020/21 are reduced 1 M bales as a 2 M bale decline in projected output reduces exportable supplies. U.S. planted area is 1.5 M acres lower this month, as indicated in the *Acreage* report. Ending stocks are projected at 6.8 M bales, 1.2 M lower than in June, and equivalent to 38% of use. The projected price received by U.S. upland cotton producers is \$0.59 cents per pound this month, \$0.02 cents higher than in June.

Commitment of Traders Report, Tuesday, July 7, 2020





Cash Market Basis Charts July 8, 2020



Corn

For 2020, the USDA estimated 92.006 million acres will be planted to corn. Planting intentions reported in March were 96.99 million acres and last year's final figure was 89.7 million acres planted. That is down 3% from a year ago, well below the Dow Jones' pre-report estimate of 95.2 million acres. Harvested acres for corn were estimated at 84.02 million, last year's harvested acres were at 81.3 million. At the time of the survey, it was believed that there were 2.239 million acres left to plant. Changes to some

individual states figures were North Dakota, acres were down 1.1 million from a year ago; Nebraska and Kansas each fell by 300,000 acres; Illinois, Iowa and Minnesota all jumped by between 300,000 to 500,000 acres, with Ohio gaining 800,000 acres over 2019 levels. Using a trend line yield of 178.5 bushels per acre (bpa), the June report's 5 million acre decrease from March intentions figures over 800 million bushels less corn. Ultimately, the net effect may be relatively minor as feed and residual use could end up being between 500-600 million bushels lower for 2020/21 ending stocks. The result: manageable but still bearish with 2020 ending stocks levels estimated at between 2.8 to 2.9 billion bushels.

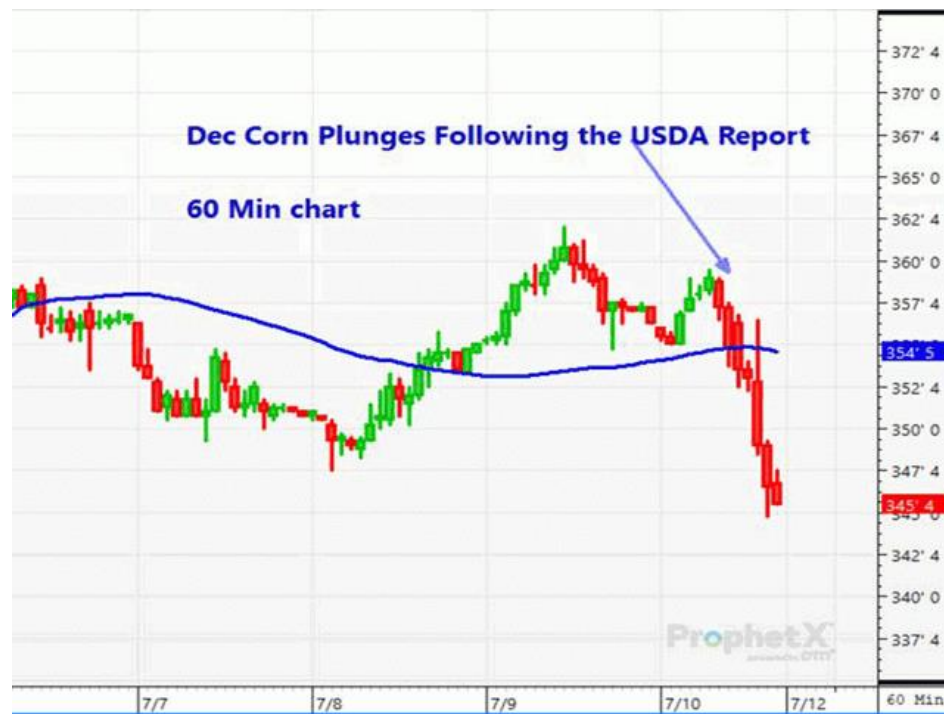
June 1 corn stocks were estimated to be around 5.220 billion bushels, slightly higher than March 2019 projections of 5.202 billion bushels but below March 2020 projections of 7.953 billion bushels. March-May disappearance of 2.73 billion bushels was 680 million bushels lower than a year ago with analysts shifting a lot of the blame for the demand decrease on lockdown measures associated with Covid-19 (its adverse effect on both corn for ethanol usage and livestock feeding) and the weak export pace versus a year ago.



Following the release of USDA's June 2020 *Grain Stocks and Acreage* reports, corn futures took off, as funds scrambled to cover shorts. The missing 5 million corn planted acres from the March report was far more than traders expected (DTN ProphetX Chart). New-crop December corn futures that were down 1/2 cent prior to the report, surged to a 15 3/4-cent higher close on report day. December corn futures features the short-term, 20-day moving average crossing the 50-day moving average to the upside. Although not foolproof, this moving average crossover typically tracks changes in trend. The drop in planted acreage sent corn upward as heavily short funds began to buy in shorts.

New-crop corn appeared to build a base with support at \$3.45 and then \$3.35. However, before a corn bull move is solidified, with trend at or above historic yields, indications are that the U.S. could have one of the largest corn carry outs in years. Without some sort of catastrophic weather event this summer, export demand and ethanol related demand for corn are viewed as obstacles to any substantial rally in corn, though it seems that corn exports are rebounding to some degree, much improvement is still needed.

Those gains were short lived. The market's focus now turns to demand and weather. For the week ending July 10th, December corn futures ended down 12 1/4 cents Friday at \$3.44 3/4 and 10 1/2 cents down for the week. Prices closed at a technically bearish weekly low close. Despite a major purchase corn by the Chinese, July's WASDE report sent buyers scurrying to the sidelines as old-crop demand for both corn and soybeans were cut. This 60-minute chart of December corn illustrates the market reaction following the report. (DTN ProphetX chart by Dana Mantini).

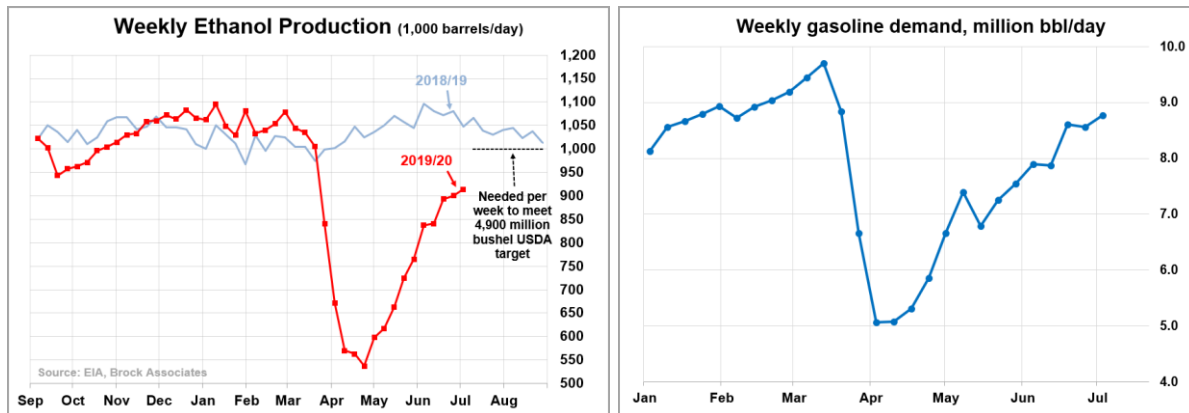


Corn traders also looked past the USDA's announcement that private exporters sold 1.365 metric tons of corn to China. Of that total, 765,000 metric tons are slated for delivery in the 2019/20 marketing year and 600,000 metric tons is for new-crop delivery. The market will be looking for lower crop ratings in the near term and the debate about yield potential is going to intensify in the coming few weeks. Supply-driven rallies are often short-lived and peak by mid-summer. Lower corn demand for ethanol will continue to be a drag on the corn market until at least the end of this year.

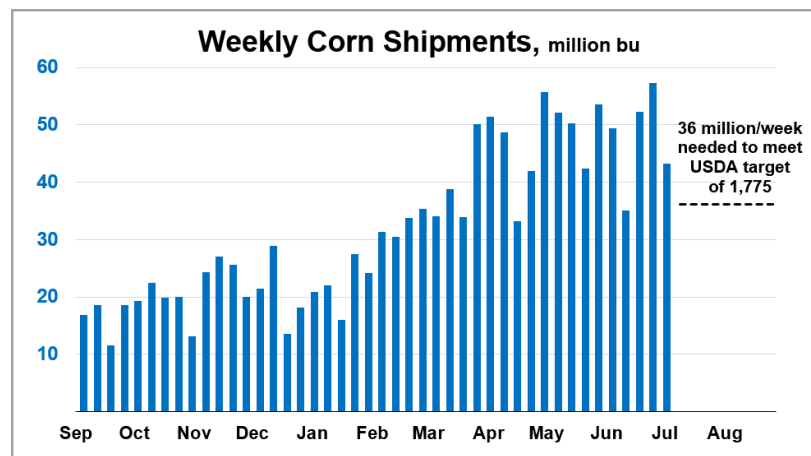
With an additional 2.24 million acres of corn remaining unplanted at the time of the survey, it begs the question whether those acres may end up in alternative crops or end up being unplanted. While the Acreage report revealed a positive surprise for corn prices, the June 1 stocks report came in much higher than expected. The June 1 corn stocks came in at 5.224 billion bushels, slightly higher than last year and around 273 million bushels larger than experts' projections. The higher than expected stocks total revealed a lower level of feed use in the third quarter of the marketing year. Feed and residual use during the first three quarters of the marketing year sits at 4.729 billion bushels. To reach the projected 5.7 billion bushels of corn, the USDA projects for feed and residual during this marketing year, feed, and residual use in the fourth quarter must equal 971 million bushels. It should be noted that fourth quarter feed and residual use has not equaled that level since the 2005/06 marketing year.

Ethanol production continues to recover from April and May. Corn use for ethanol in the third quarter totaled 955 million bushels, 387 million bushels down from the third quarter of the last marketing year. The recent uptick in COVID-19 cases and subsequent mitigating policies adopted to arrest its spread

insert uncertainty into ethanol use projections. Corn use for ethanol may flatten out as the virus' resurgence tampers economic activity during the peak driving season and may carry over into the next marketing year.



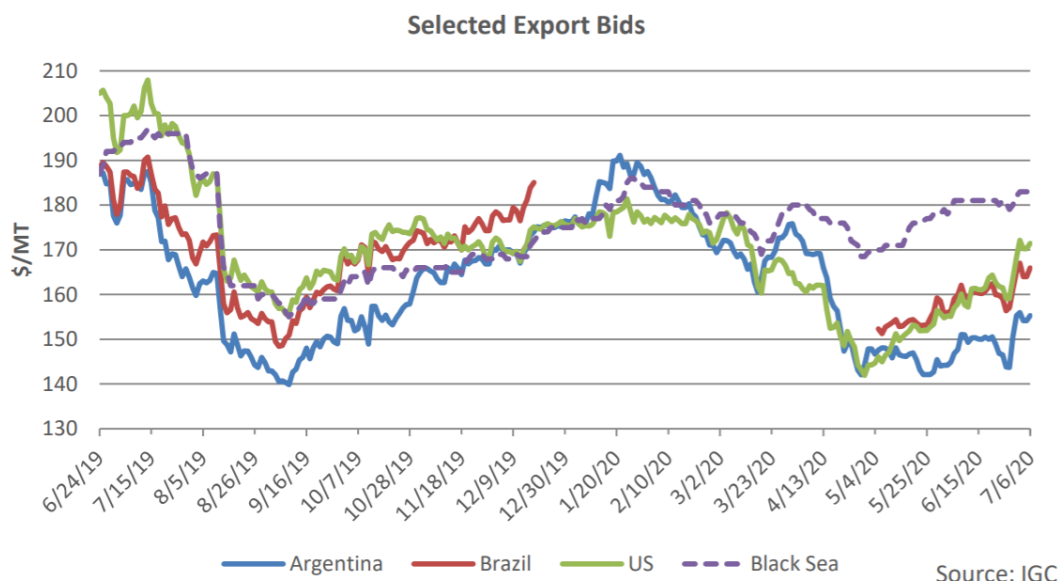
Corn exports appear on track to hit the USDA's estimate of 1.775 billion bushels for the current marketing year. Net U.S. corn export sales for the week ended July 2 came in at 39.7 million bushels, topping trade expectations and the previous week's 24.5 million bushels. Sales for 2019/20 delivery were 23.6 million bushels, the best in nearly a month. Corn export shipments fell off to 42.7 million, though, from 56.7 M a week earlier and were below the level needed to reach the USDA's old-crop export forecast. While export pace sits slightly below USDA estimates, some light Chinese buying and strong domestic prices in Brazil are positives for U.S. corn exports. Higher corn prices and the potential for slow global growth may prevent an acceleration of exports as the calendar moves into the next marketing year.



A higher carry out, despite lower acreage, places an added emphasis on yield potential. Dryness in major corn-producing areas looks feasible over the near term. The recent drought monitor showed areas in North Dakota, Illinois, and Indiana poised to come under stress if current conditions persist. An extended dry period as the early-planted crop moves into pollination will push corn yields lower. The projection for harvested corn acres sits at 84 million acres, 2.7 million more than harvested in 2019. If the USDA's yield projection of 178.5 bpa comes to fruition, corn production near 15.0 billion bushels, with the present acreage intentions, is very possible, up ~1.37 billion bushels from 2019.

Subsequent rallies in corn prices rely on the weather. The prospect of the market building a weather premium seems high over the next week given the current weather forecast.

Since the June WASDE, U.S. bids are up \$14 per ton to \$171 supported by decreased area planted in corn and continued weather uncertainty. South American bids responded to the change in U.S. crop size by strengthening at the end of June, with Argentine bids up \$7 per ton to \$155 and Brazilian bids up \$6 per ton to \$166. Black Sea bids are little changed, ending \$2 per ton higher at \$183.



A USDA attaché in China expects China’s feed and residual use of all coarse grains and feed-quality wheat to climb around 5% in 2020/21, “due to a projected recovery of swine production and strong expansion in the poultry and ruminant sectors.” The post says corn feed use for pig farming is up 30% from year-ago and industrial use by the alcohol disinfectant sector has surged more than 44%, which more than offsets declines in use for other deep processing applications.

Chinese corn production is expected to slide 4% from 2019/20 “due to the impact of fall armyworm and reduced planted area,” with the post saying there is a regional corn shortage in the Northeast, with increased feed demand and insufficient corn imports pushing up prices. The government recently liquidated its temporary corn reserves, implying “China may rely on corn imports and stockpiled rice and wheat to meet feed demand in the coming marketing year.” The post expects China to import 7 million metric tons of corn in 2020/21, which would be a 500,000 metric ton increase from the 6.5 million metric tons the official expects China to import in 2019/20.

The attaché says “Several industry sources reported that about 6.6 million metric tons of China’s corn tariff rate quota (TRQ) obligation have been allocated so far this year, and the sources indicated that 2.88 million metric tons of that amount were allocated to private companies. The China Oil and Foodstuffs Corporation (COFCO) reportedly bought about 500,000 metric tons of corn from Ukraine and 1.5 million metric tons from the U.S. COFCO is expected to import another 1 million metric tons from all origins by September.” The post adds that failure to obtain a GMO-processing permit has been “the main obstacle for feed mills to import U.S. corn.” The attaché goes on to state, “There are rumors within the industry that in late April the government discussed increasing the state corn reserves by 20 million metric tons to replenish the stockpile in the face of a deficit year. Industry believes that if the rumor is true, the source of the reserve increase could only be imported corn. The imports would increase the long-term supply in China and help press down domestic prices in the short term. To date, China has not taken steps to increase the state reserve.” The attaché says that even with the 25% retaliatory tariff, U.S. corn is still

between ¥150 to ¥160 (\$21.39 to \$22.81) cheaper per ton than domestic corn at northern ports and ¥200 (\$28.51) cheaper per ton at southern ports.

Reuters reported that China booked its second-largest single-day U.S. corn purchase on record, according to USDA data released on July 10th, as the country works to fulfill its obligations under Phase 1. The USDA said China bought 765,000 tons of corn for shipment in the current marketing year which ends August 31st and 600,000 tons for shipment in the following year. The 1.365 million tons of corn booked by China was its largest single-day purchase in over 25 years, behind only a 1.45 million ton purchase in December 1994, according to the USDA.

Some in the trade suspect that rumors of big purchases from China have been surfacing for the past two weeks. In addition, China is starting to sell more of its state reserves at auction. One market observer notes, “we are wondering if this may be the ongoing larger part of a buy program that China may have more needs to cover.” Yet, there were renewed doubts about China buying not just to meet Phase 1, but efforts to work on Phase 2. News surfaced on July 10th that President Trump said Phase 2 of the trade deal is unlikely and that the relationship with China has been severely damaged. Another market observer notes that “in the short-term, the market is trading weather, but he thinks the trade isn’t impressed by the large purchase of corn from China because many more of those buys are still needed.”

Soybeans

While many industry analysts were undoubtedly shocked by the fall-off in corn planted acres, there was also some surprise that more of that acreage did not translate into soybeans. Soybean planted acreage was came in at 83.825 million acres, only 325,000 more than was reported in the USDA’s March Planting Intentions report. Pre-report expectations were for soybeans were around 84.7 million acres. This estimate still translated to being 10% higher than last year’s levels. Harvested acreage was pegged at 83.02 million acres versus just 74.9 million acres in 2019. In their June report, the USDA assumed that there were just over 12 million unplanted acres. South Dakota had the largest gain in planted acres, 1.7 million acres more than 2019.

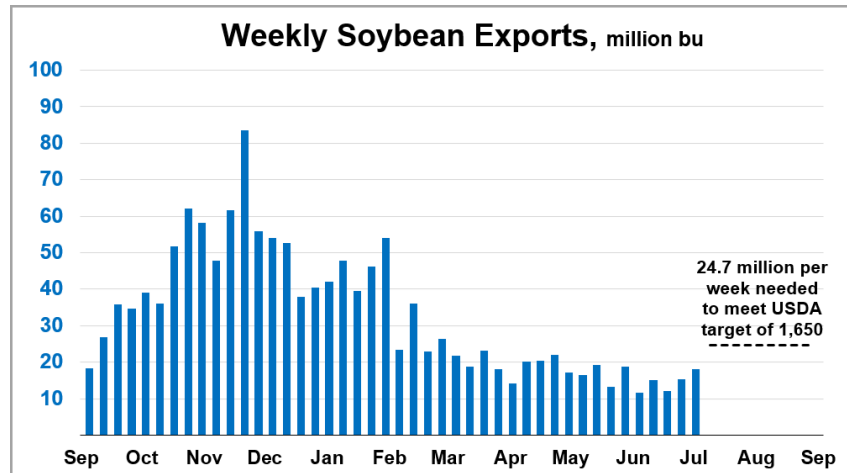
Soybean stocks as of June 1 came close to the Dow Jones survey estimate of between 1.381-1.386 billion bushels, 22% down from a year ago and compared to 2.253 billion bushels projected in March. The March- May disappearance of 869 million bushels was 8% below last year. That is certainly the result of decreased exports and negative impacts of COVID-19 on soybean demand.

Even though commodity funds did not carry a large short soybean position into the report, the price reaction in beans would suggest that the trade was equally surprised that more acres did not move into soybeans. Soybean meal and oil, on which funds were short, also rallied sharply as funds covered.

Chinese demand should remain supportive for soybean futures, with U.S. soybeans facing limited competition from Brazil for delivery periods falling in September-December. Chinese crush margins are improving and that may help to boost import demand of U.S. soybeans, but it is a question of when now that Brazil has sold much of its crop. Tensions are on the rise again as China introduces a new national security law in Hong Kong.

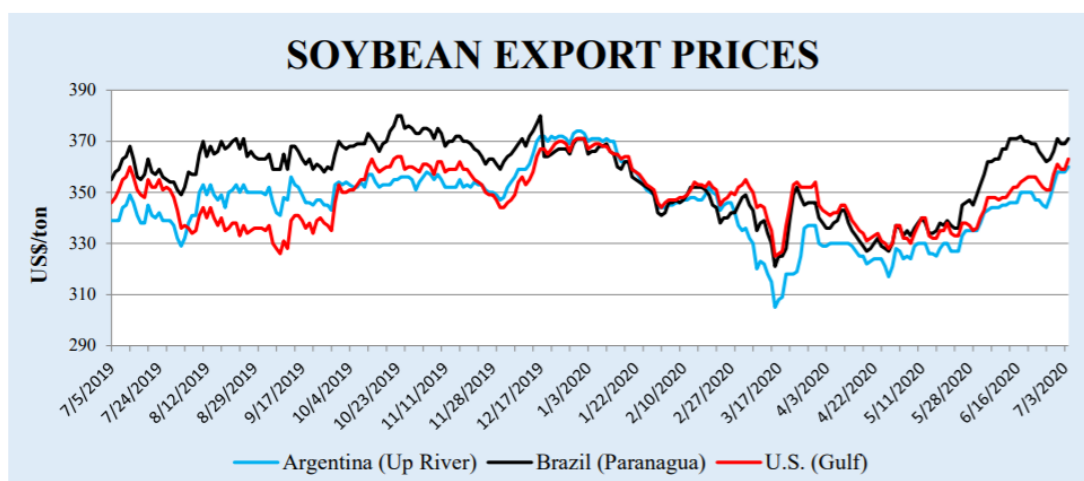
The July 6th export inspections report found 19.2 million soybean bushels had passed through U.S. export inspection last week. It was nearly a 7.0 million bushel increase from the previous week and is on pace to beat out the five-year average for the week. Most July 6th soybean export inspections were on bushels destined for China. Last week’s shipment of nearly 6.2 million soybean bushels to China served as welcome news for U.S. farmers who have been waiting on the Middle Kingdom to ramp up their purchase

of U.S. agricultural products under Phase 1. Despite the recent uptick in purchases of U.S. agricultural good, China remains woefully behind Phase 1 commitments having only purchased 7.7% of Phase 1 soybeans with approximately half the calendar year remaining. Net weekly U.S. soybean export sales came in at 49 million bushels, toward the high end of trade expectations. Export sales for 2019/20 were 35.0 million bushels, their highest in four weeks.



But a single strong week of soy exports may not be enough to salvage 2019/20 U.S. soybean export demand. To meet the USDA's 2019 export target of 1.65 billion bushels, U.S. soy exporters will have to weekly ship approximately 25 million bushels for the next 10 weeks. Soybean exports historically start increasing in the final seven weeks of the marketing year, offering a glimmer of hope that U.S. soybean demand in the coming weeks will support current price levels.

Soybean prices rose substantially in June. U.S. Gulf FOB soybean export bids in May averaged \$350 per ton, up \$15 from May. Argentina up River FOB averaged \$346 per ton, up \$17. Although Brazil and U.S. prices were close throughout May, Brazil Paranaguá FOB prices surged higher than competitors did in June on tightening supplies, averaging \$365 per ton, up \$27 from last month. Argentina and U.S. prices converged at the start of July, remaining below Brazil.



Since the high at the end of March, August soybean meal has plunged nearly \$37 per ton. The bearish influence from weaker-than-expected China soybean demand, along with the sharp fall in crush margins,

has sent bean meal futures to new contract lows. Managed money funds have amassed a net-short soybean meal position of over 43,000 contracts. Following the bullish acreage report on soybeans and corn last week, funds started to cover those shorts. For four straight days, soy meal futures rallied sharply, gapping higher on Sunday night. It appears bean meal may have turned the corner. Look for August meal to find major support at \$2.90 to \$2.92 on a setback. The fact that the short-term, 20-day moving average has crossed the 50-day moving average is another hint the trend may have turned.



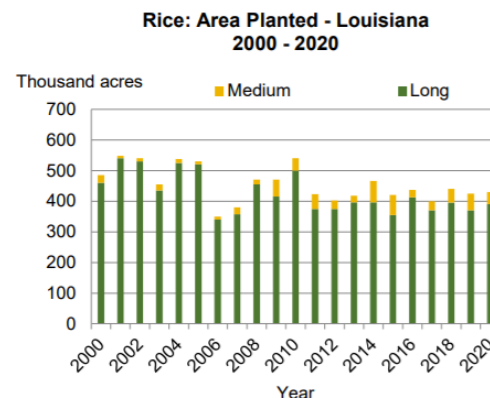
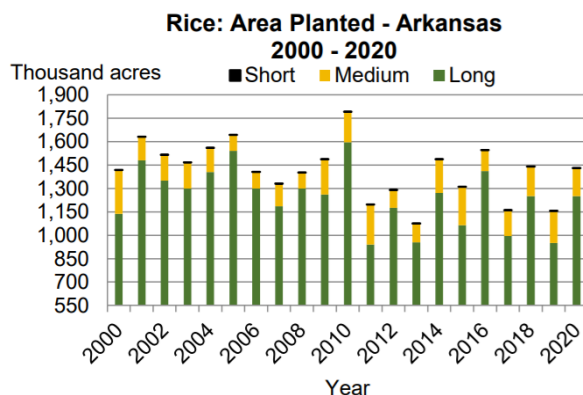
The above daily chart represents August soybean meal and while the double bottom at the \$283 area looks like it will be tough to crack, good support exists above at \$290-\$292 and again at \$287 (DTN ProphetX chart).

With planting acres for soybeans falling 900,000 acres short in the USDA's latest report, November soybeans have exploded. November beans rose sharply along with corn, as funds began to build a long in beans, while covering shorts in both meal and oil. As in meal and new-crop corn, the telltale moving average crossover also occurred in November beans. November beans appear to have major support on a fall to \$8.80 and further major support another \$0.20 lower at \$8.60. November beans will certainly need more Chinese buying over the next six to eight weeks to keep the recent bullish trend intact. Major selling resistance lies just above \$9.10 to \$9.20 that could be tough to penetrate without more business or a drought-like weather pattern.

The week ending July 10th witnessed November soybeans falling 10 ¾ cents to \$8.90 3/4 and down 6 cents for the week. December meal futures erased this week's gain on Friday and closed \$4.10 lower on the week. December soyoil futures fell 39 points this week to settle at 28.84 cents Friday. Weather continues to dominate price action. Futures surged to the highest since late March to start the week and closed making new weekly lows. Prices fell after President Donald Trump said the country's relationship with China was severely damaged, raising doubt Beijing will fulfill pledges to buy more U.S. farm products. Longer-term, China's 2020/21 soybean imports were pegged at 96.0 MMT, unchanged from this season. The USDA is not forecasting any demand growth in China soybean imports in the coming crop year. Undoubtedly, it will take much more business to put a stronger bid in the market and prevent funds from paring moderately large net long positions.

Rice

The July WASDE report was bearish for rice, with the September contract moving some \$0.20 lower as acreage and production grew. Arkansas increased their long-grain acreage by 300,000 (32% increase over last year). The complete breakout (figure below) by class for Arkansas is 1.25 million acres for long-grain, 180,000 acres for medium-grain and 1,000 acres for short-grain. In Louisiana, all rice planted area for 2020 is estimated at 430,000 acres, 5,000 up acres from a year ago but unchanged from March. Breakout is 390,000 acres for long grain and 40,000 acres for medium grain. Mississippi's all rice planted area for 2020 is estimated at 150,000 acres, up 33,000 acres from a year ago but unchanged from March planting intentions.

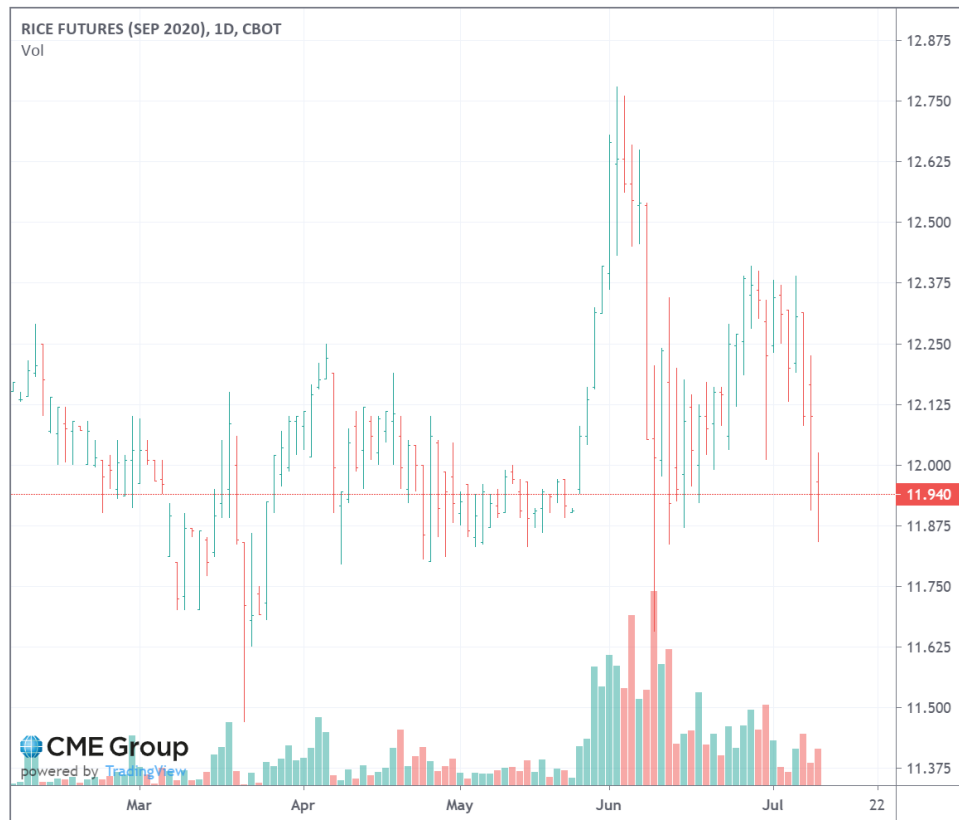


U.S. Long-Grain Planted Acres, 2020.			
	March*	June**	Difference
Arkansas	1.190	1.250	+.060
California	.010	.012	+.002
Louisiana	.390	.390	-
Mississippi	.150	.150	-
Missouri	.190	.210	+.020
Texas	.170	.180	+.010
U.S.	2.100	2.192	+.092
*NASS March 2020 Prospective Plantings			
** NASS June 2020 Acreage			

The rice futures market has been active, with the July contract giving way to the September contract as the new nearby benchmark. The July WASDE was a market mover of sorts. The fundamentals in the rice market are changing while there may be secondary price impacts resulting from changes in the balance sheets of other commodities. Changes to rice estimates were increased acreage as well as a potential downward yield adjustment due to the environmental factors in Arkansas, Missouri, and Mississippi. The projected rice yield is based on 'by-class' trend analysis. The export figure was revised 1 million cwt, as the pre-report probabilities suggested a decrease was apparent. As the level of ending stocks were increased, this will be somewhat burdensome for prices, as evident by USDA reducing the season average farm price.

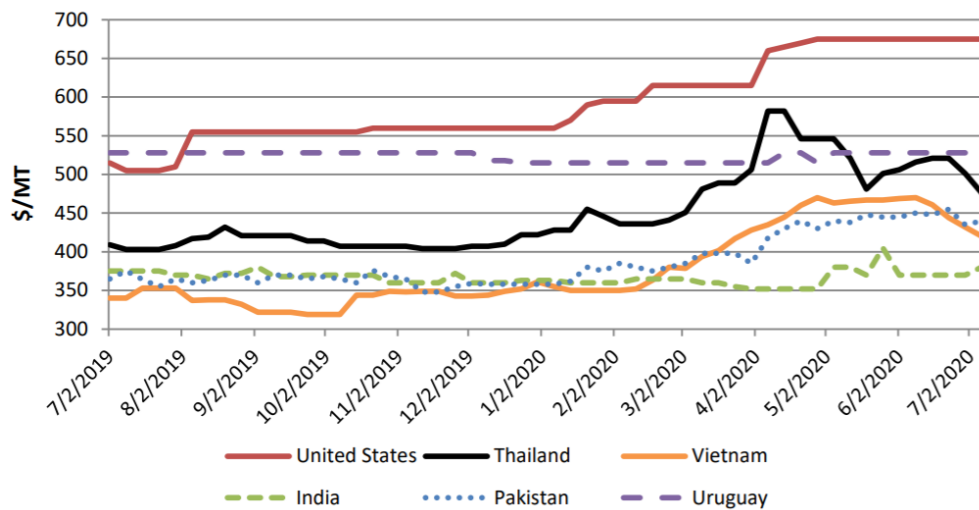
Rough rice September futures at the July 10th close at the \$11.94 per cwt mark. (The July WASDE report was released at 11:00 CT on July 10th.)

CBOT:ZRU2020, D 11.940 ▼ -0.160 (-1.32%) O: 11.965 H: 12.025 L: 11.840 C: 11.940



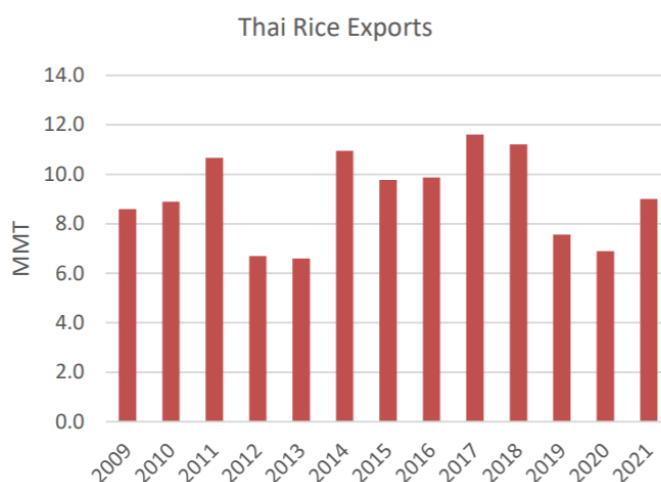
U.S. long-grain export quotes at \$675 per ton remain well above other exporters, as supplies remain very tight before the new-crop harvest. The stark price difference remains between the U.S. and the Southern Hemisphere with Uruguayan quotes remaining at \$528 per ton. Thai prices have fallen on weak offshore demand to \$476 per ton. Vietnamese prices have fallen following the removal of its export ban to \$420 per ton. Pakistani quotes have declined to \$440 per ton, while Indian quotes have risen to \$380 per ton.

Weekly FOB Long Grain Rice Export Quotes: Last 12 Months



Thai rice exports in 2020 have been forecasted, interestingly, to decline to their lowest levels since 2013 due to severe drought that has tightened supplies and raised prices. The drought was only second in its severity for the past decade and has particularly affected off-season rice production, as it most typically relies on reservoirs which have been depleted by the recent drought.

The 2020 Thai prices have been much higher than its competitors, similar to patterns observed in 2012 and 2013. After a sharp spike earlier this year, Thai prices have begun to approach Indian and Vietnamese prices though Thai prices remain more than \$50/ton higher than Vietnamese prices and almost \$100/ton higher than Indian prices. High prices, exacerbated by continued tight supplies, make competition with other Asian exporters a difficult chore.



Despite the 2020 decline, Thailand's exports are expected to rebound in 2021 driven by a crop that is expected to be 2 million tons larger than the 2020 crop. In addition, global demand is forecast to grow almost 6 percent in 2021 providing more export opportunities, particularly in West Africa and in the Philippines. Regional competition will be reduced as Vietnam's exports are expected to decline modestly on a smaller crop.

The U.S.-China Economic and Trade Agreement, which was signed on January 15, 2020, provided U.S. rice producers with expanded access to the Chinese market. The General Administration of Customs of China (GACC) granted market access for U.S. milled rice at the end of December 2018. The trade agreement clarified the procedures and timeline for listing U.S. establishments as being eligible to export rice to China and reaffirmed China's ability to administer its rice tariff rate quota (TRQ) in compliance with the country's WTO commitments. China has already registered 32 U.S. rice facilities for the export of rice to China. New establishments will be added within 20 business days of the United States notifying GACC that APHIS has certified that facility's compliance with the phytosanitary protocol for U.S. rice exports to China.

China: 2019 Milled Rice Imports by Variety and Country/Region								
	Pakistan	Thailand	Myanmar	Vietnam	Cambodia	Taiwan	Others	Total
Long Grain 1/	577,922	496,548	445,472	440,135	224,865	-	68,597	2,253,539
Medium-Short Grain 2/	25,686	29,708	78,588	38,972	-	48,513	5,157	226,624
Total	603,608	526,256	524,060	479,107	224,865	48,513	73,754	2,480,163
% of Total Imports	24%	21%	21%	19%	9%	2%	3%	100%

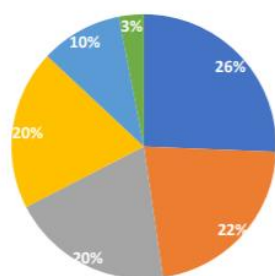
Source: China Customs trade data as reported in TDM

1/ Long Grain HTS: 1006.2020 (brown), 1006.3020 (milled), 1006.4020 (broken)

2/ Medium-Short Grain HTS: 1006.2080 (brown), 1006.3080 (milled), 1006.4080 (broken)

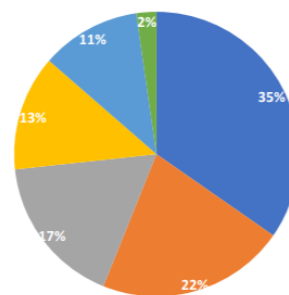
CHINA: LONG GRAIN RICE IMPORTS (MT)

■ Pakistan ■ Thailand ■ Myanmar ■ Vietnam ■ Cambodia ■ Others



CHINA: MEDIUM-SHORT GRAIN RICE IMPORTS (MT)

■ Myanmar ■ Taiwan ■ Vietnam ■ Thailand ■ Pakistan ■ Other



China is the largest producer and consumer of rice in the world with approximately two-thirds of its rice production being in long grain, the remaining share divided between both medium and short grain varieties. China is also one of the world's top importers and exporters of rice.

China imports sizeable volumes of milled rice, most of which comes from neighboring Southeast Asian countries. Import volumes from its top five suppliers – Pakistan, Myanmar, Thailand, Vietnam, and Cambodia – accounted for 95% of total imports in 2019. Most of this rice is long grain. Imported long grain rice is used in the hotel, restaurant, and institutional (HRI) sector and at home. U.S. long-grain rice is not expected to be price competitive with imported rice from these countries.

China also imports medium-short grain rice, most of which also comes from the Southeast Asian countries mentioned above. Medium-short grain rice is also imported from Taiwan and Japan. In early April 2020, China granted Italy market access for rice, most of which will probably be risotto. U.S. medium-short grain rice is expected to compete with some of the higher end varieties of medium-short rice from these origins as well as Chinese rice.

Imported rice is subject to a TRQ that is evenly divided between long grain and medium-short grain varieties with a combined total of 5.32 million metric tons. The in-quota rate is 1%, while the out-of-quota rate is 65%. Most U.S. rice exports are expected to fall under the medium-short grain TRQ allocation. See table below for details on China's 2020 milled rice TRQ.

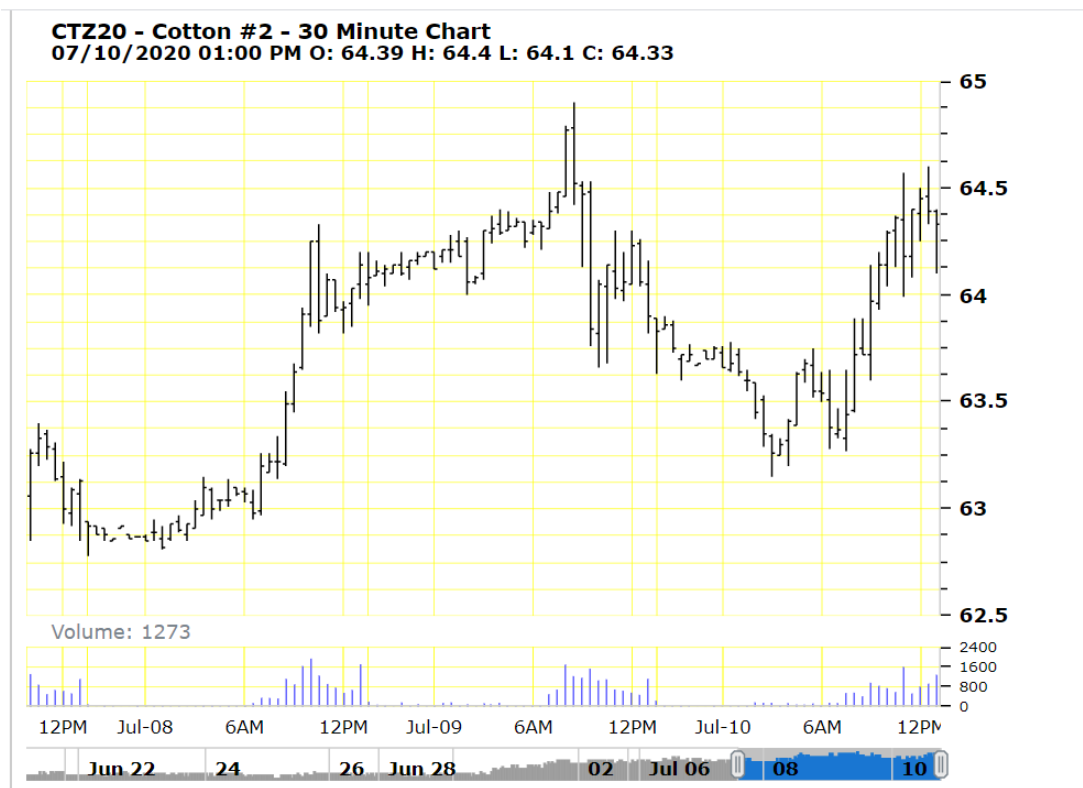
The primary channels for selling U.S. rice is initially expected to be through medium to high-end restaurants, especially Japanese-style restaurants, and niche grocery retailers looking to capitalize on the cachet U.S. rice offers. Pending a favorable consumer response, U.S. rice could expand its presence into

more mainstream retail and online platforms. Imports of U.S. rice are expected to come packaged for both retail and HRI use.

Cotton

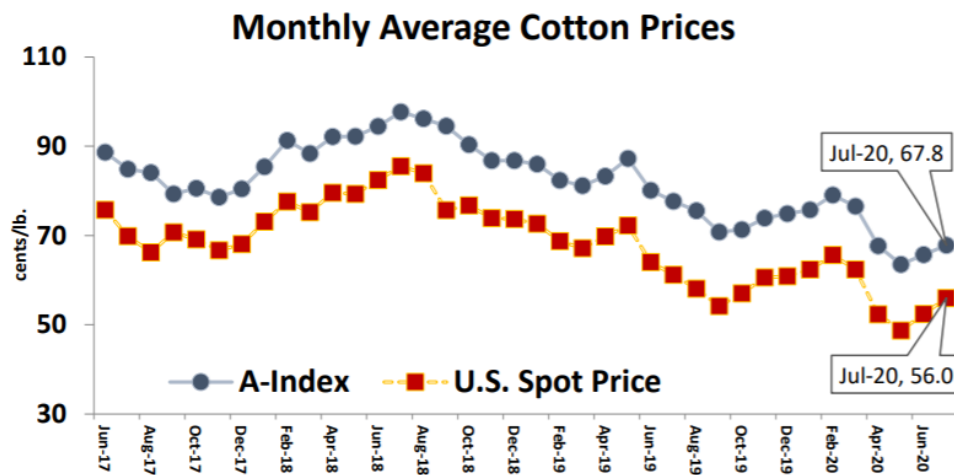
The USDA lowered the 2020/21 U.S. cotton crop 2 million bales from last month's estimate of 19.5 million bales to 17.5 million. U.S. carryover was reduced from 8.0 million bales to 6.8 million as U.S. exports were lowered to 15.0 million bales (from 16.0 million). With July being the prime fruiting month for the U.S. cotton crop, weather remains the prime fundamental.

The week ending July 10th saw cotton futures posted gains of 34 to 42 points through the March contract today. December cotton futures firmed 136 points for the week. Cotton futures pushed out to a new high for the move this week and finished near weekly highs. That keeps technical momentum with the bulls. Fundamentally, weather is the focal point, especially dry conditions in West Texas. Some areas of West Texas and the Texas Panhandle are likely to receive rains next week, but given expected extreme temps, they will not provide much needed relief. With cotton acres sharply down from March intentions and potential for yield loss and acreage abandonment, crop size could dwindle if weather in Texas and the Southwest stays dry. The USDA will issue its first cotton crop estimate August 12th. New-crop ending stocks are now projected to decline from the 2019/20 marketing year. But at 6.8 million bales, supplies will still be plentiful. That gives some cushion if the U.S. cotton crop is trimmed by adverse weather. Given expected big ending stocks, we intend to aggressively sell cotton on this summer weather rally.



The A-index and U.S. spot price have risen for the second consecutive month but remain below the season average. June's Acreage report reported lower-than-expected plantings for 2020/21, helping prop prices up from the previous month. Also, crop conditions in the largest producing state, Texas, range from *very poor* to *poor* (over one-third) according to the USDA's weekly Crop Progress report as minimal

rainfall and severe heat have affected the crop. Less planted acres and recent weather conditions are expected to support ICE prices in the short term.



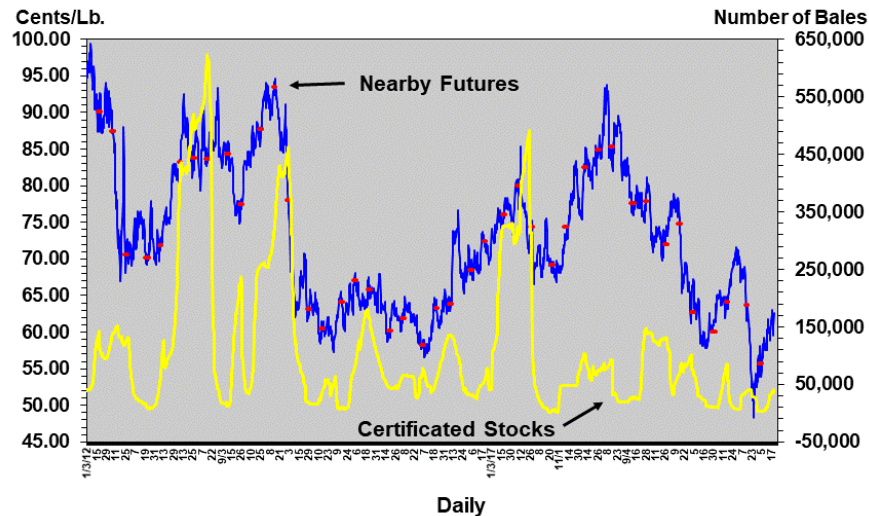
The cotton market is still facing potential demand setbacks from COVID-19. As infections seem to be on the rise, some states are slowing the pace of re-opening while others are contemplating complete shutdowns. Such reactions can hurt retail apparel demand. Real-time economic indicators- on job listings, credit card spending, retail foot traffic and more- suggest the economy has begun weakening again.

This summer will be dominated by the latest in U.S./Chinese relations. The White House seems more focused on the economy and the second wave of Covid-19 infections heading into the November elections. The U.S. House passed a bill imposing sanctions on banks that do business with Chinese officials involved in cracking down on pro-democracy protesters in Hong Kong. The national security law's provisions feature harsh sentences- up to life in prison for those convicted- fueling uncertainty not only among Hong Kong's 7.5 million residents, but the some 1,300 foreign companies that have set up regional headquarters there. If China's Communist Party media starts attacking President Trump, "That's when the U.S./China relationship has really gone off the rails," says one China watcher.

Dr. John Robinson, TAMU cotton economist notes that the current allocation of certified stocks, and a lot more cotton futures information, can be found on the ICE futures website under "Featured Reports." Certified stocks represent mostly merchant inventory that is in position to be delivered against short futures positions, i.e., delivered by those holding short futures contract. ICE reports daily the level of certificated stocks in delivery point warehouses. As shown by the chart below, certificated stocks can experience a great deal of fluctuation. A declining certificated stocks level can be an indicator of increasing commercial demand. Conversely, when certificated stocks are rising, it may reflect a lack of demand for U.S. cotton in the export market.

A high level of certificated stocks (e.g., over several hundred thousand bales) represents a greater credible threat of physical delivery of cotton against long futures positions held past First Notice Day. Therefore a potential side effect of low certified stocks is that it might have encourage speculative funds to take larger long positions with less chance of a getting caught in a long squeeze situation and/or getting stuck taking delivery of physical cotton. With low potentially deliverable supplies, the fund sector may feel like it has more room to push the futures market higher (and further from the cash market) provided it has enough time to eventually exit that long position.

Cotton Nearby Futures Settlement Prices Vs. Certificated Stocks January 3, 2012 – July 1, 2020



The drop-dead date for funds holding long positions is First Notice Day (the 5th business day before the end of the previous month before contract expiration). Those dates are indicated on the chart above as red dots on the blue line. That is the day when sellers of futures contracts notify the exchange of intended deliveries of physical cotton against their short futures positions. Generally, the people in that position are big cotton merchants, who are also the people who certify most cotton.

The certified stock level has been fluctuating from low levels earlier in 2019 to a peak in late November, and since shrunk to a relatively low level. The most recent shrinkage has been associated with rumors of Chinese state traders buying up all available supplies of tenderable U.S. qualities, i.e., that which might otherwise be certificated.

However, recent certified stock levels have risen; in June, the level has climbed from 10,000 to over 40,000 bales. This coincides with the continued rally in nearby cotton futures contracts. This suggests the possibility of delivery of remaining tenderable old crop bales in lieu of commercial sales.

A major influence for the 20/21 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 is 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.

Dr. O.A. Cleveland notes that the Phase One trade deal Trump negotiated with China has taken it on the chin from many who wished it to fail. Yet, for agriculture and cotton specifically, it has become a bright shining star. China now desperately needs to conclude cotton business with the U.S. Fulfilling the Phase 1 trade deal has now become a feather in the hat for the Chinese Communist Party. They point to that in an effort to take world pressure off those other egregious confrontations.

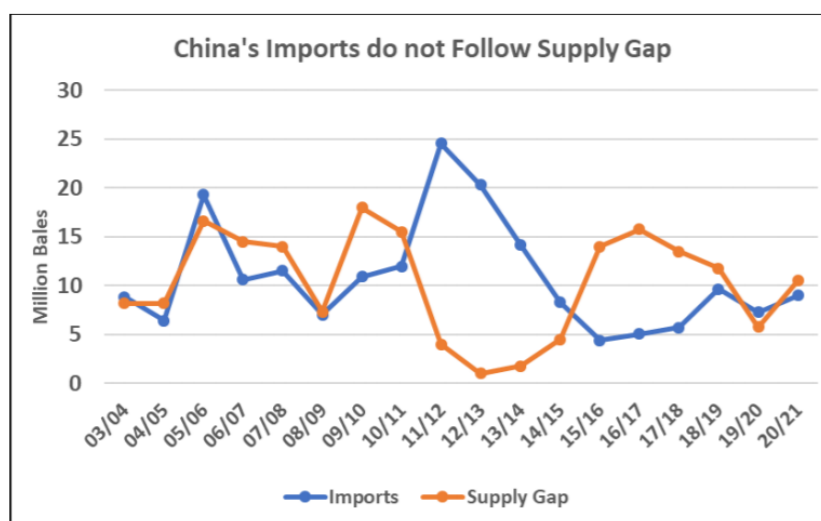
Cotton purchases have been a major part of China's agricultural dealings. Chinese strategy with regards to cotton is intriguing. In the course of business negotiations, they come forward and blame the U.S. farmer for all the problems in the global cotton industry. The carryover stocks level for U.S. cotton is estimated by the USDA (undisputed) at 6.8 million bales. China's carryover is currently estimated at 35.4 million bales.

Yet, China blames the U.S. for allowing the U.S. cotton farmer for growing too much. Their statement to the world is that the U.S. cotton grower is to blame for lower world cotton prices. China is now expected to be the largest export market for U.S. cotton, even though some other growers like Brazil and India are cheaper. In fact, sales to China over the past three months totaled 2.5 million bales. During the 2019-20 season, with four reporting weeks remaining, sales to China have totaled over 3.7 million bales.

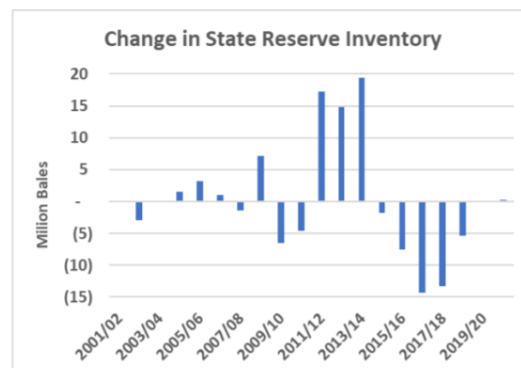
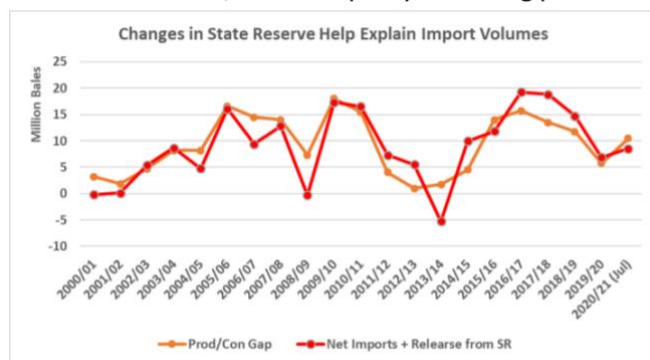
Granted, even with some 1.6 million bales still unshipped, by the end of the season that figure should drop to one million or less with the cotton industry normally carrying over the remaining shipments into the next marketing season.

To repeat, China will purchase some 3.8 million to 4 million bales from the U.S. during the current 2019/20 marketing year — and more business is coming in 2020/21. China is not buying cotton for immediate use. It is buying cotton to further increase its 35-million-bale carryover stocks level. With all the “bad will” going around now, could it be that China is attempting to buy a little good will? China is about the only market for cotton right now, but those state stocks will still hang over the market and do nothing to boost prices. In other words, the Chinese government will pay the carrying cost instead of the U.S. government.

For most cotton spinning countries, import demand is largely driven by the supply gap between production and consumption. However, China has been an outlier. The country’s trade has shown little correlation between its imports and its supply gap over the last decade; for example, 2011/12 imports doubled and reached nearly 25 million bales while the supply gap fell by 75 percent to 4 million bales. The disconnect between the supply gap and import volume was due to the fluctuations the level of China’s State Reserve (SR) which absorbs surplus domestic cotton in order stabilize internal prices and purchases foreign cotton at times. It also supplies the domestic market if prices and supplies outside of China are such that internal prices rise too high relative to world prices.



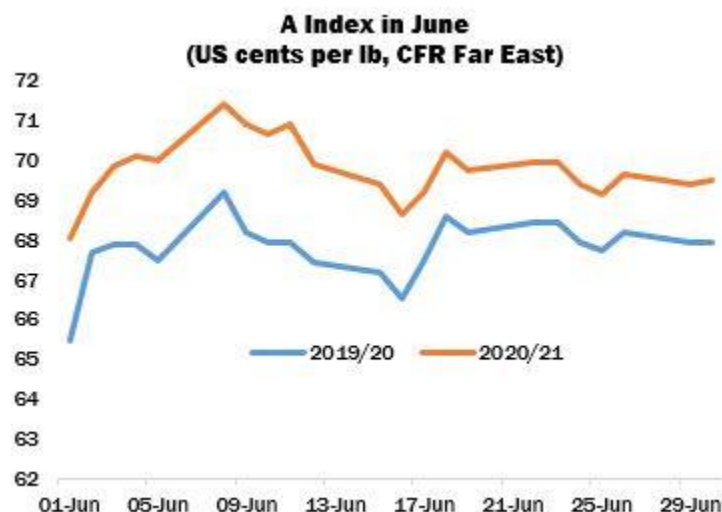
Since China’s entrance into the WTO in 2001, the State Reserve has bought or sold nearly 200 million bales of cotton; holdings have changed by up to nearly 20 million bales in a single year. The reasons for activity have been both external and internal – external being the global price shocks of 2008 and 2010, while the policy of shifting production to Xinjiang served internal purposes. Year-to-year State Reserve activity has had a major impact on Chinese imports, as some years cotton has been released, reducing demand for imported cotton and in other years China purchases cotton, thus, bolstering import demand.



To accurately predict Chinese import demand, one must be able to anticipate SR activity. Following annual auctions of the world's largest cotton reserves in the years starting after 2013/14, the USDA now estimates that China's State Reserve has reached the government's preferred level. Nearly 10 million bales are estimated to remain, down from a high of nearly 60 million bales in March 2014. The USDA predicts a strategy of rotation going forward and minimal net changes in stock levels, with the State Reserve auctioning old-crop and replacing with both new-crop domestic cotton and imports. This would imply that for the first time in over a decade that import demand in China will largely be based on the supply gap.

COVID-19 has sharply reduced China's spinning activity, throttling import demand in 2019/20 into 2020/21. While demand is expected to recover from the impacts of COVID-19, production in inland areas is likely to continue its decline while area expansion in Xinjiang is limited. The USDA Baseline forecasts total production to grow modestly. If China's consumption increases at or near the expected global rate of growth, then import demand will still witness steady growth, albeit somewhat limited.

International cotton prices, as measured by the Cotlook A Index, again fluctuated within a narrow range during June, and gained modest ground under the lead of New York futures. The current (2019/20) A Index started at its low point for the month, before reaching a high point on June 8 of 69.20 US cents per lb. The price ended 125 cent points below that level. The Forward (2020/21) Index, representing cotton for shipment no earlier than October/November, followed a similar pattern. That Index registered its firmest price since it was introduced in May, at 71.40 cents per lb, but ended the month 200 cent points lower. The Indices converged as the month progressed, from a differential of 2.60 US cents per lb at the beginning of the period, to just 1.45 by June 30.



The relative stability of New York futures remained somewhat at odds with both the outlook for the global balance sheet (more of which below) and the bearish mood in the wider international market. Even though some spinning mills and textile/garment factories gradually began to restart operations in late May and into the following month, the near paralysis of the cotton textile supply chain persisted, dashing hopes of a full recovery in the near term.

Cheaper Brazilian lots remained a focus for hand-to-mouth buying on the part of mills in various markets in June. Demand for Indian cotton remains limited despite competitive pricing. In the case of US export sales reports, China was again the major destination mentioned. Sales to China were the principal feature of successive US export reports during June, which also demonstrated the paucity of mill demand from other countries, with the major exception of Vietnam. In the second half of the month the pace of shipments picked up to exceed the weekly average required to meet USDA projections for the season (15 million bales of 480 lbs). Total US sales registered for the 2019/20 campaign are approaching 18 million bales: despite Washington's anticipation of a substantial carryover into the new season, the availability of US cotton for third quarter shipment now appears somewhat limited.

It was confirmed on the last day of the month that a Chinese State Reserve sales auction series would commence on July 1st and continue until the end of September. The daily volume offered for sale will be around 8,000 tonnes (versus 10,000 in 2019), up to a cumulative total of around 500,000 tonnes, with the aim of optimizing the structure and quality composition of the reserves. Perhaps 1.75 million tonnes of reserve stocks consist of domestic cotton that were procured as far back as 2011/12. Around 370,000 tonnes of Xinjiang high grades were also added between December 2019 and March of this year, and a further 400,000/450,000 tonnes of imports, mainly Brazilian, entered the reserve in 2018 and 2019. Added to recent imports of US cotton and the volume of lint which resides in commercial and industrial hands, China's supply appears ample for the time being.

Fibre2Fashion News reports that despite a 12 per cent decrease from the previous season attributed to trade tensions with the US and a slowdown in manufacturing during the COVID-19 containment, China is expected to remain the world's largest importer of cotton lint and import 1.8 million tonnes of cotton in 2019-20, according to the International Cotton Advisory Committee (ICAC).

Shift in cotton imports to China during Phase-I agreement & COVID-19 containment

	August, 2017 - April, 2018	August, 2018 - April, 2019	August, 2019 - April, 2020	2018/19 - 2019/20
	Thousand metric tonnes			Change
World	875	1597	1245	-22%
Brazil	81	404	527	30%
United States	406	215	277	29%
Australia	165	462	185	-60%
India	64	255	106	-59%
West Africa	25	101	53	-48%
Sudan	16	28	23	-19%
Mexico	20	14	13	-7%
Uzbekistan	65	40	11	-73%
Greece	7	27	8	-69%
Kazakhstan	5	15	8	-46%

As tariffs on cotton lint increased in 2018/19, making US cotton 25 per cent more costly to Chinese importers compared to other growths, China had also increased the total volume of imports of cotton lint. As China increased its total imports of cotton lint from 1.3 million tonnes in 2017/18 to 2.1 million tonnes in 2018/19, US cotton exports to China decreased from 528,000 tonnes in 2018 to 360,000 tonnes in 2019.

"Market share in China shifted over this period with imports from Brazil increasing by over 170 per cent in 2018/19," ICAC said in its June estimate of world cotton supply and demand.

As phase one of the trade agreement entered into force, stringent COVID-19 containment measures in countries have slowed manufacturing and trade across the globe. With global cotton consumption revised down to 22.5 million tonnes for 2019/20, a 13 per cent decrease from the previous season, trade is expected to decrease to 8.25 million tonnes, an 11 per cent decrease. Imports to China have shifted again during this period of reduced demand from both COVID-19 containment and trade agreements.

Comparing the August through April period for the 2018/19 and 2019/20 seasons, global imports for the nine-month period are estimated at 1.245 million tonnes, a 22 per cent decrease from the previous period.

During the 2018/19 season, as US exports to China decreased, Brazil gained market share to China. Australia, India, and West Africa also increased cotton lint exports to China during 2018/19 season.

For the 2019/20 season, Brazil is expected to export over 1.8 million tonnes globally and through April 2020 (where the latest data is available), has exported an estimated 527,000 tonnes to China, a 30 per cent increase from the previous period. The United States is expected to export 3 million tonnes globally and through April has exported an estimated 277,000 tonnes to China, a 29 per cent increase from the previous period. Other countries and regions exporting to China that had seen increases during the 2018/19 season are showing declines in exports to China in the August through April period.

Drought conditions in Australia have limited total exports for 2019/20. Exports from India to China have decreased following an increase the previous season. Exports from West Africa (including Benin, Burkina Faso, Chad, Cote d'Ivoire, Mali and Togo) show a 48 per cent decrease over the period. Exports from other countries to China, including Sudan, Mexico, Uzbekistan, Greece and Kazakhstan, have seen decreases that range from 7 per cent to 73 per cent.

Following production and a growth in exports in 2018/19, total exports from West Africa are expected to decrease in 2019/20 to 1.1 million tonnes. With production estimated at 1.3 million tonnes for the region, stock levels would increase if quantities of the 2019-20 crop are not exported. Imports from West African countries to China have fallen by 48 per cent over the August to April period with limited opportunities to export under reduced demand from COVID-19 containment and improving trade relations between the US and China.

U.S./China Phase 1 Trade Agreement

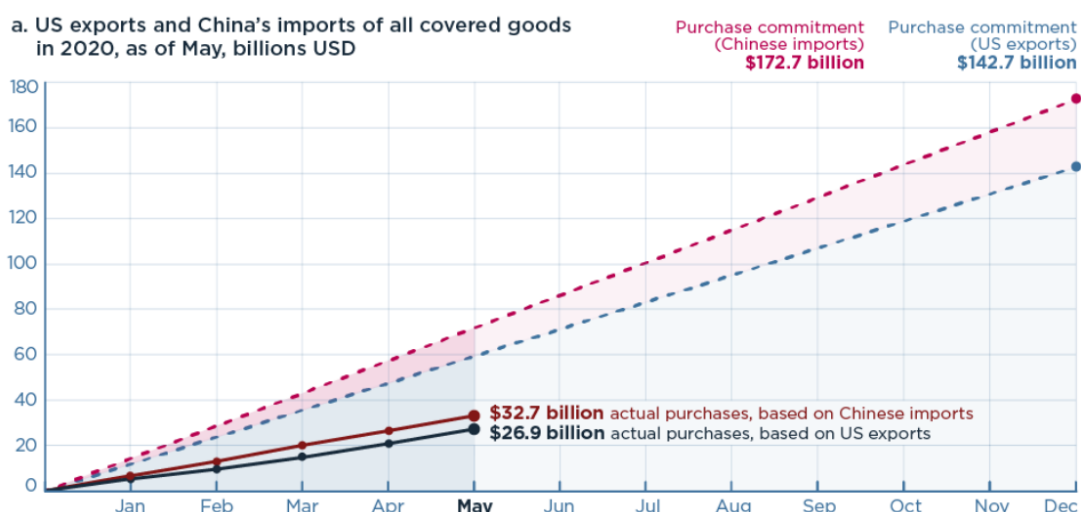
The Peterson Institute for International Economics (PIIE) notes that over the past year, Chinese importers have bought less than \$1 billion of energy products of the originally \$25 billion promised. Only \$8 billion of a pledged \$36.5 billion of agricultural purchases have materialized.

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 May 2020, China's imports of covered agricultural products were \$7.5 billion, compared with a year-to-date target of \$15.2 billion. Over the same period, US exports of covered agricultural products were \$5.4 billion, compared with a year-to-date target of \$13.9 billion. Through the first five months of 2020, China's purchases were thus only at 39 percent (US exports) or 49 percent (Chinese imports) of their year-to-date targets.

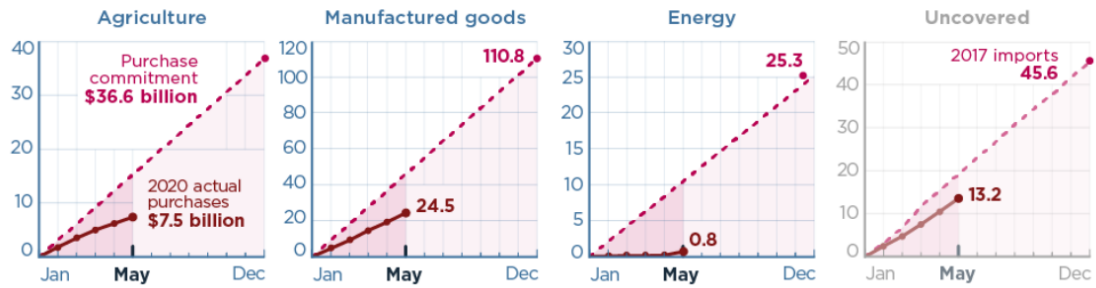
This update is based on May 2020 data released on June 25, 2020 (Chinese imports) and July 2, 2020 (US exports).

US-China phase one tracker: China's purchases of US goods

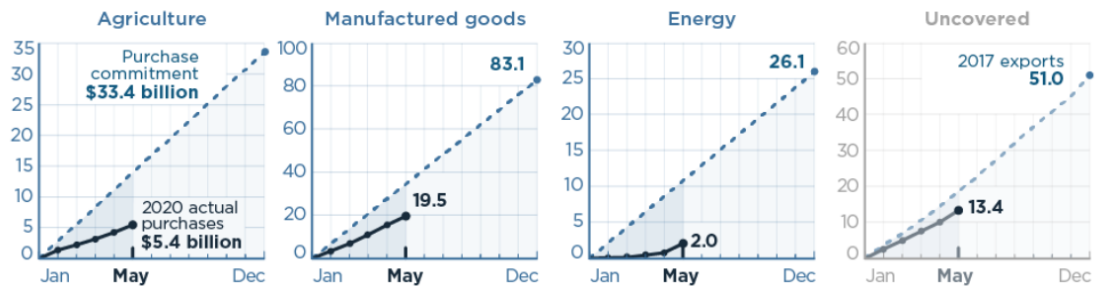
US exports and China's imports in 2020 of all goods covered by the phase one deal as of May 2020



b. China's imports by product type, billions USD



c. US exports by product type, billions USD



China's currency, the yuan (¥), hit its highest level since March as stocks surge. The yuan rose past the important currency ratio of ¥7:US\$1 against a backdrop of soaring shares. State media promoted a "healthy" bull market on Monday but changed its tone later in the week as stocks rallied. The U.S. dollar fell against most currencies (on July 9th) as a rally in riskier assets such as global equities and commodities put a dent in safe-haven demand for the U.S. currency.

Renminbi breaks through seven to the dollar

Onshore renminbi per US dollar



USDA CFAP Signup Underway

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

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.

<i>Covered Commodity</i>	<i>2019/20 MYA Price*</i>	<i>Effective Reference Price</i>	<i>2019 CY PLC Payment Rate</i>
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	\$0.3032	\$0.3670	\$0.0638
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 July 10, 2020 WASDE report.

PLC Farm Program Payment Projections - 2020 CY

<i>Covered Commodity</i>	<i>2020/21 MYA Price*</i>	<i>Effective Reference Price</i>	<i>2020 CY PLC Payment Rate</i>
Corn	\$3.35	\$3.70	\$0.35
Grain Sorghum	\$3.35	\$3.95	\$0.60
Long Grain Rice	\$11.60	\$14.00	\$2.40
Medium Grain Rice	\$11.50	\$14.00	\$2.50
Seed Cotton	\$0.3039	\$0.3670	\$0.0630
Soybeans	\$8.50	\$8.40	--
Wheat	\$4.60	\$5.50	\$0.90

*national marketing year average (MYA) prices reflect the midpoint price level from the July 10, 2020 WASDE report. The 2020-projected PLC seed cotton price was not published at the time of the release of this report. This is the author's own estimate based on the assumption of a smaller 2020 U.S. cotton crop. Total cottonseed production was assumed using a 1.28 conversion multiplier.

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.

<i>Covered Commodity</i>	<i>2019/20 MYA Price*</i>	<i>2019 ARC-CO Benchmark Price (5-yr Olympic Average)</i>
Corn	\$3.60	\$3.70
Grain Sorghum	\$3.25	\$3.98
Long Grain Rice	\$12.10	\$14.00
Medium Grain Rice	\$11.70	\$14.00
Seed Cotton	\$0.2963	\$0.3670
Soybeans	\$8.50	\$9.63
Wheat	\$4.60	\$5.66

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

ARC-CO Farm Program Price Parameters - 2020 CY

<i>Covered Commodity</i>	<i>2020/21 MYA Price*</i>	<i>2020 ARC-CO Benchmark Price (5-yr Olympic Average)</i>
Corn	\$3.60	\$3.70
Grain Sorghum	\$3.25	\$3.98
Long Grain Rice	\$12.10	\$14.00
Medium Grain Rice	\$11.70	\$14.00
Seed Cotton	\$0.2963	\$0.3670
Soybeans	\$8.50	\$9.63
Wheat	\$4.60	\$5.66

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

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



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