August 2, 2019

THE BROCK REPORT

America's Most Complete Commodity Marketing Service

NOW WHAT?

This was a very good week for some producers and a very bad week for others. Market prices in corn and soybeans dropped like a rock. Subscribers to this report cannot claim that this situation was not discussed in advance. Going into this week we were (and have been for a long time) sold out of old-crop corn and soybeans, 50% priced in new-crop corn and soybeans and 10% hedged in corn for the 2020 crop. For everyone in that position, it was a good week.

One concern always in a collapsing market such as this is the producers who:

1. Are back-door economists. They look out their back door and see that the crop is horrible and thus assume that the market has to go up.

2. Do not believe in technical signals and completely ignore them.

With that said, Thursday morning I asked the head of our introducing brokerage division (Brock Investor Services) to give me a report on whether or not we had many accounts that were long corn and soybeans. My fear was confirmed.

In our brokerage division, for the most part, our accounts fall into four categories. Farm hedge accounts that we have power of attorney on and manage (they were all short and in very good shape). The second category is subscribers to The Brock Report or clients who work with one of our consultants but still make their own decisions. They were also short but not short as much percentage-wise. A third category is producers who use our introducing brokerage firm to place their orders, but essentially pay no attention to what we say and don't subscribe. Almost all of those accounts were long futures and contributed a substantial amount of cash to the market. A fourth category of customers are small speculators who trade in everything including ag commodities, metals, energy markets, etc.

It's always upsetting to see people who fight the market. Interestingly and understandably, the accounts who were long corn and soybeans were predominantly located in areas where crops are horrible. Illinois, where the good/excellent rating for corn is only 44%, and Indiana at 36%, accounted for a fair share of the long positions. This week I will be conducting a seminar for bankers and producers in Tennessee. The good/excellent rating in Kentucky, where many attendees will come from, is 69% and in Tennessee, it is 84%. Attitudes should be positive for the most part.

Unfortunately, what this indicates is that the move to the downside in corn and beans is likely not over. The trend is down, and markets are cruel. They will not let people who are fighting a market off the hook easily. That's just the way it has always worked. So, what happens now and what should a person do?

First, let's take a look at a couple of potential objectives. Starting with corn. On weekly continuation charts, there is a gap that was left on the way up at $3.85. The breakaway gap in December corn on May 14 was at $3.80. Those are both pretty logical objectives on this sell-off. Seems like a long ways away, but this is a liquidating market and a freight train falling out of the sky. It's possible December corn could find support at $4.00 but not very likely. If a person really wants higher prices near harvest time, it would be best to see this market flush out

"The man on top of the mountain didn't fall there."

- Vince Lombardi

POLITICAL MARKETS

Nothing is every easy when political announcements impact price movements. Thursday's announcement by President Trump to impose a 10% tariff on many Chinese imports resulted in a significant move in many markets. The stock market dropped sharply and has yet to recover. Energy prices plummeted but were bouncing back strongly on Friday morning. Gold prices soared to new highs as did the value of the U.S. dollar.

On the agricultural side, soybean and hog prices plummeted and dragged the other grain and livestock markets with them. Early Friday morning, all of these markets were bouncing back moderately.

What does this all mean? This could very well be a temporary bottom in both corn and soybeans. Corn and soybean futures sold into major support areas. Psychologically, this was enough of a move and a surprise to some traders that fear set in and washed out some of the weak longs. Now the market will go back to trading weather conditions, estimated yields and estimated acreage. For the short-term, there seems to be more upside potential than downside risk.

That does not change, however, the long-term picture where we believe corn and soybeans both have established tops. All this means is that the grain markets will likely have one big rally between now and harvest in order to allow producers to establish catch-up sales. In the hog market, futures appear to be making an exhaustion bottom. After selling off sharply all week, the market rebounded some on Friday but it's unlikely the gains are going to be held short-term. Sharp rallies in this market will need to be sold. But, for now, this is a market to wait and be patient.

All politics aside, for the good of agriculture, let's hope and pray these negotiation tactics work long-term.

NOW WHAT?...(continued)

now to the $3.80 area and then it would be like a spring board on the way back and might possibly rally back to the resistance area of two weeks ago, which is in the $4.25 to $4.30 range.

If the market does not fall to that level quickly, any rallies in December corn in the $4.25 to $4.35 range need to be used for catch-up sales. We understand this has been a difficult market to aggressively forward cash contract in because of the lack of confidence in yields, but that is why 30% of our position is in futures and only 20% in cash contracts. Strict cash marketers are 30% sold. We have a good position on in the 2020 crop, short December '20 futures on 10%. The reality is, we should have sold more of that.

Soybean Objectives

On a weekly continuation chart, a 50% retracement would take nearby futures to $8.51. A significant gap was left in the charts on the way up in the November contract at $8.58-$8.64. That is only 16 cents away from where the market is trading as I write this.

Put another way, soybeans could be close to exhausting themselves in the short-term. Nevertheless, the odds of November beans getting back to $9.00 right now would seem somewhat remote. Currently, our position is short November beans on 40% of expected production. Our game plan is going to be one of looking for a place to take profits on that position once an exhaustion bottom is confirmed. Particularly, if November beans get to $8.50 on this move, the risk on the downside becomes outweighed by the potential on the upside. We will either take profits on the positions or use an option strategy to protect the profits.

For those who have not taken our recommendations and have sold little or nothing, these are not markets to play catch-up in now, either corn or soybeans. Chalk it up to experience and sit and wait it out at this point. For those who are speculating long corn and soybean futures, the market is always right. Sometimes its better to take small lumps than fight a market and take a big lump. Whenever a person is fighting a market, odds are very high no decisions are going to be good ones.

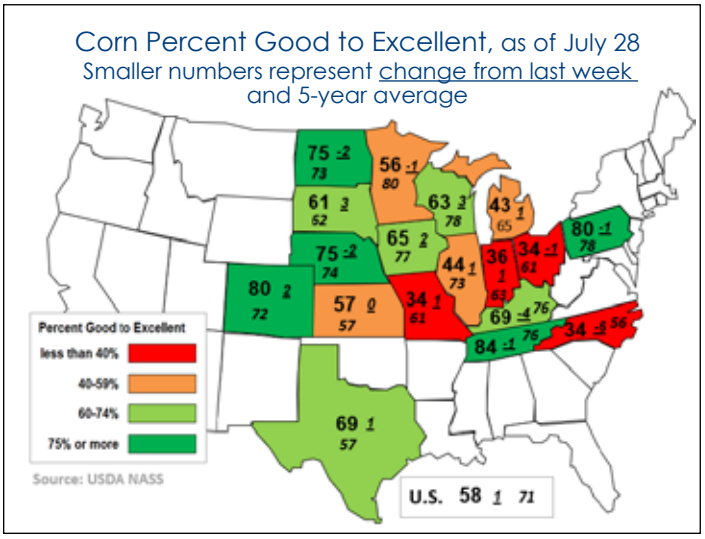
Other Thoughts

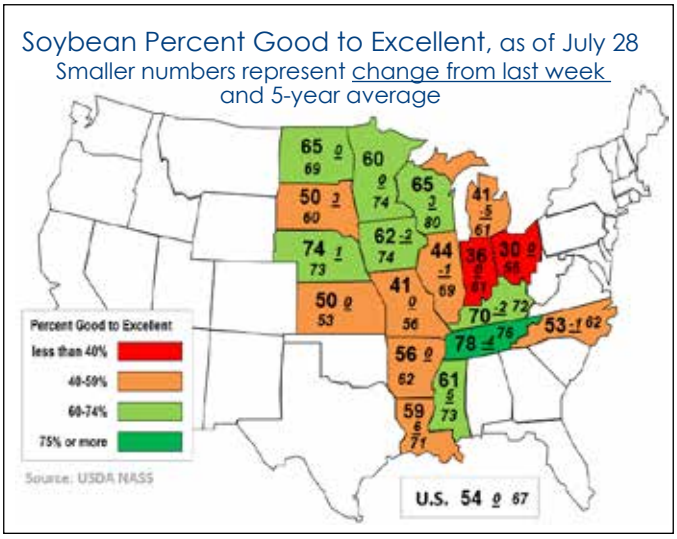
This week I went with another farmer on a helicopter tour of the crops about 25 miles south of Lafayette, Indiana. There is about a 30-mile strip that runs from there all the way through Ohio where the crops could well be classified as very poor - one of the worst areas of the country with the exception of southeastern South Dakota. It's easy to understand how a producer in that area of the country would be bullish. But on the other hand, corn in that area of the country has progressed substantially in the last 10 days. The soybean crop looks miserable. If I were to guess, the soybeans in that area of the country are going to do very poorly on yield, and certainly no better than double-crop soybeans.

Is that bullish? As pointed out over the last few weeks, the soybean market should be starting out 2019/20 with record old-crop supplies and corn with very large supplies. The soybean export market is getting hurt badly by tariffs. Demand is down for both corn and soybeans. One cannot make pricing decisions based purely on the supply side. Demand is being curtailed, and that is a long-term problem not just a short-term one.

In looking at outside markets, they are not helping the case for the bulls either. Crude oil was down sharply this week. Crude oil and corn have a tendency to trade together. Gold and silver, after looking explosive and moving into new highs, also turned sharply lower on Wednesday and Thursday. The value of the U.S. dollar was very strong adding insult to injury. On the ethanol market, there were several reports this week of cutbacks in exports and a build up in inventories. Most of these issues will be rectified eventually, but in the meantime, this is a psychological warfare and markets don't turn around until the bulls give up.

As the old saying goes, the trend is your friend and the trend in both corn and soybeans is down and until proven differently, we're staying on the short side. This is a day-by-day market, though, not a good time to go on a one-week fishing trip to Canada. Significant money will be made and/or lost in marketing programs over the next three weeks. We will do our best to help you capture the profits on hedges when this market is ready to turn.





COMMENTARY

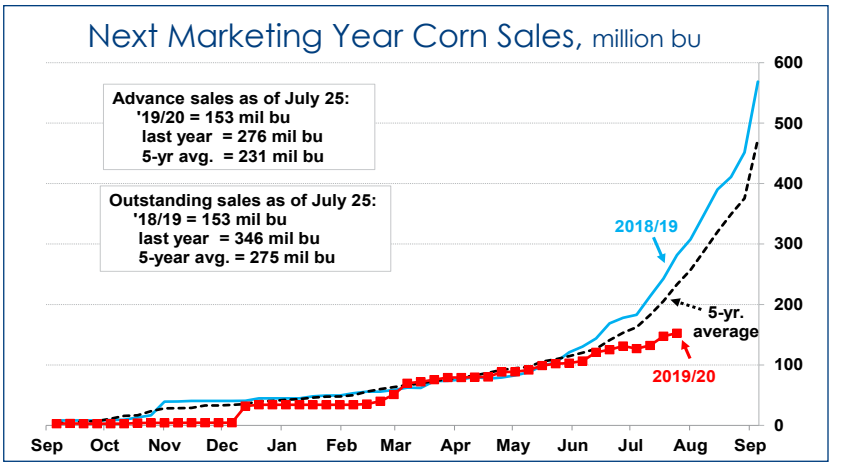
There are no signs the export woes currently being faced by the U.S. corn and soybean markets are going to go away quickly. U.S.-China trade negotiations appear to be going nowhere fast right now and South American competition figures to remain stiff in both markets. U.S. soybean export sales commitments for next marketing year are far behind where they were a year ago and far behind the five-year average. Advance corn sales commitments are also lagging significantly.

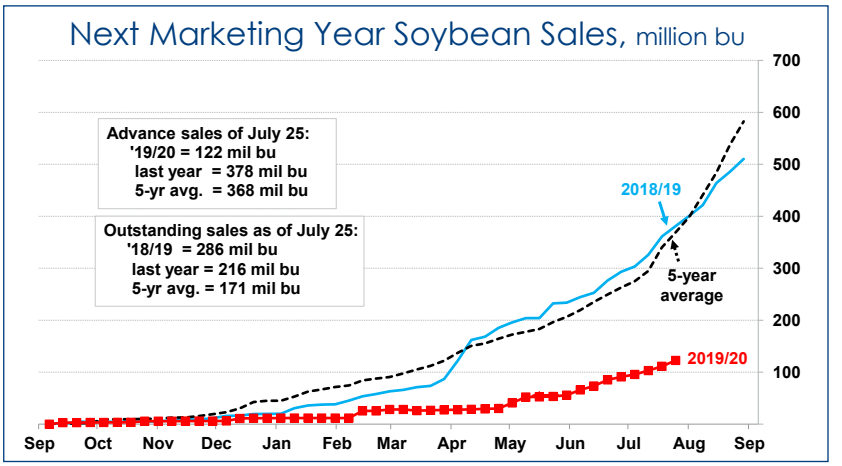
Through July 25, U.S. corn export sales commitments for next marketing year were down 44.6% versus a year earlier and were 33.8% behind the five-year average. This is the time of year when advance sales for next year should be picking up sharply, but the pick-up so far this year has been very modest, with a record Brazilian crop dominating the export market. The carryover of old-crop corn export sales into 2019/20 also figures to be very small. Outstanding old-crop sales commitments of 153 million bushels as of July 25 were down 55.8% from last year and 44.4% from the five-year average.

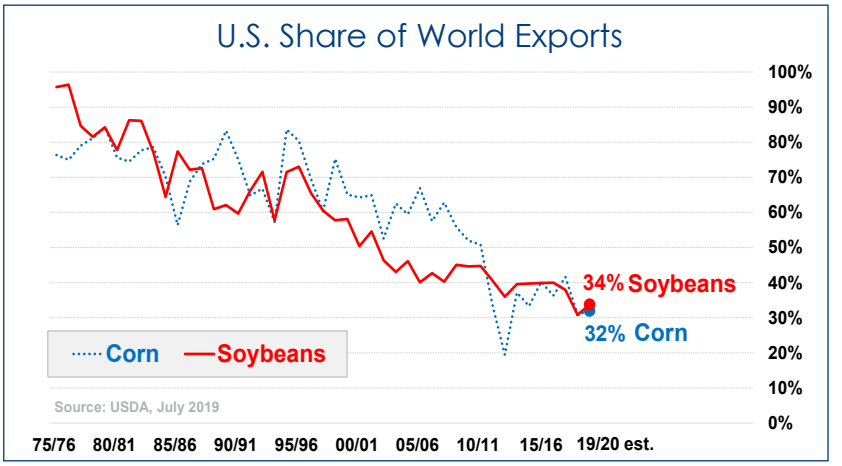
Next marketing year soybean sales commitments, meanwhile, were down a whopping 67.7% from a year earlier and down 66.8% versus the five-year average amid the absence of any significant Chinese buying. China, so far, has bought just 7.1 million bushels of U.S. soybeans for 2019/20 delivery. With just four-plus weeks left in the 2018/19 marketing year, nearly 30% (156.3 million bushels) of China's old-crop U.S. soybean purchases have yet to be shipped, and its a good bet some of those will be pushed back into 2019/20.

The U.S. share of the world corn and soybean export markets has been trending lower for many years. The U.S. share of the world corn market this year is pegged by USDA at 31%, the second smallest on record going back to 1975/76, behind 2012/13, when U.S. supplies were down sharply due to the severe Midwest drought. USDA forecasts a marginal increase to 32% for 2019/20.

The U.S. share of the world soybean market is expected to be record low this year at less than 31%. USDA forecasts a small rebound to about 34% in 2019/20, but that projection looks optimistic to us. Chinese demand will be slow to recover from this year's drop as its hog herd will be slow to recover from African swine fever. Meanwhile, Brazilian farmers are expected to plant record large soybean and corn area again this year (see page 4).







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CHINA'S HOG HERD HALVED?

China's hog herd may be about 50% smaller by the end of 2019 because of African swine fever, according to a new analysis released on Tuesday by Dutch lender Rabobank, which estimated the Chinese sow herd is already 40% smaller than last year. That figure is well above recent official estimates of 15% to 26% out of China. Rabobank said China's 2019 pork production was expected to fall by 25% versus last year. China's pork output will likely drop by a further 10% to 15% in 2020, it said in the report.

China's hog herd won't be quick to bounce back from the ASF outbreak. Production may take more than 5 years to recover to levels prior to the deadly outbreak, Rabobank estimated, as challenges include a lack of solutions to prevent the disease and a lack of capital will restrict restocking.

BRAZIL SOY EXPORTS SUFFER

Brazil's soybean exports fell by 23% in July versus a month earlier amid weaker demand from China, while its corn exports hit a new high, government data showed on Thursday. Brazilian corn exports rose to 6.317 million metric tons (MMT) in July, the highest for any month on record. Frederico Humberg, founder of grain trader AgriBrasil, told Reuters he expects Brazil's corn exports to rise even higher in August, as some 5.5 MMT of corn already appear in this month's line-up of ships waiting to load at Brazilian ports.

BRAZIL ACREAGE SEEN UP AGAIN

Brazil could harvest record corn and soy crops in 2019/20 if weather cooperates, as farmers are expected to increase plantings again, Sao Paulo-based Datagro Consultoria said on Wednesday. The firm expects soybean planted area to expand by another 2% to a record large 36.8 million hectares (90.93 million acres), which could result in production of 125-126 MMT. That would be 2-3 MMT above USDA's current projection. At that level (4.593-4.629 million bushels) Brazil's production could be more than 20% above this year's U.S. output.

Datagro's chief grains analyst, Flávio França Jr. said those crop expectations will rely heavily on the weather. "In the last three years we have had a more neutral climate than anything else, weak El Niño or weak La Niña, and we have had two good years and this year has been bad," he told Reuters News Service.

Datagrow expects Brazilian corn plantings for 2019/20 to reach 18.1 million hectares (44.73 million acres), up 4% from this season, resulting in a total harvest of 104.28 MMT, more than 3 million above USDA's current forecast. This could mean further expansion of Brazil's corn exports.

BRAZIL IN TRADE TALKS WITH U.S.

Brazil has officially begun negotiating a trade agreement with the U.S., the country's economy minister said on Wednesday, adding that the negotiations were compatible with a trade deal recently struck with the European Union. Speaking in Brasilia after meeting with U.S. Commerce Secretary Wilbur Ross, Brazilian Economy Minister Paulo Guedes said the U.S. wants closer ties with Brazil, including the chance to sell Latin America's largest economy more ethanol. Negotiations between Brazil and the U.S. will begin with areas not involving tariffs, Guedes said, adding that it would be possible to negotiate a trade accord with the U.S. that does not include changes to tariffs.

EU-MERCOSUR DEAL HEADWINDS

The European Union and South America's Mercosur trade bloc last month announced they had reached a historic free trade pact after two decades of negotiations, but it remains to be seen if the broad agreement will receive final approval. The trade deal must still be ratified by legislatures in both EU and Mercosur nations and faces stiff opposition in a number of countries, most notably France and Ireland in the EU, where the agriculture sectors strongly oppose the deal.

French President Emmanuel Macron has set up a panel of experts to assess the impact of the draft trade deal over major concerns about the accord. France's agriculture minister said last week that the Macron government would not ratify the agreement "in its current form". Ireland's prime minister has said the government will conduct an economic assessment of the deal and has claimed he would vote against it if the risks outweighed the benefits.

WORLD WEATHER HOTSPOTS

Much of the Midwest will continue to dry down over the next two weeks. Some timely rainfall and a lack of excessive heat will limit crop stress, with some exceptions in the drier areas, especially from east-central Iowa to central Illinois where soil moisture is already short, World Weather Inc. says. Crops in the dry pocket will see steadily increasing stress, but rapid declines in yield potentials should not occur due to the lack of hot temperatures.

There should be some increase in shower and thunderstorm activity in the southwestern Canadian Prairies next week, but any meaningful rain will likely be erratic and more will be needed. Portions of northern Alberta will still be too wet.

Extreme heat during July stressed the corn crop in France, lowering yield expectations. Drying will continue over portions of France during the next 7 to 10 days, especially in the west and north. A few rounds of scattered rain showers and thunderstorms will occur, but a large portion of the nation will still need a greater widespread soaking to end long-term drying.

Drought-stricken areas in Queensland and northern New South Wales are expected to receive no "significant" precipitation for at least the next two weeks, and wheat, barley and canola production will continue to struggle.

WEATHER, TRADE HIT AG PROFITS

There was a common theme running through quarterly corporate earnings reports that came out of the agriculture sector this week, namely that volatile spring weather and trade disputes hurt earnings.

Grain trading/food processing giant Archer Daniels Midland on Thursday reported a 41.3% drop in second-quarter adjusted profit, missing analysts expectations. ADM reported adjusted net earnings of 60 cents per share versus an expectation for 61 cents according to analysts surveyed by Refinitiv.

ADM's origination business reported a 63% drop in adjusted operating profit, which the company blamed on the heavy rains that halted barge traffic on the Mississippi River. The U.S.-China trade war, which ADM had expected to have eased, also continued to hurt U.S. exports.

ADM reported "unfavorable weather impacts" of about $65 million to its operating profits. Extreme weather cost ADM $125 million in lost production for the first half of the year, CEO Juan Luciano said in an analysts conference call on Thursday. ADM was more vulnerable to U.S. flooding than some of its competitors because its operations are concentrated in the United States.

ADM competitor, Bunge LTD, reported a second-quarter profit versus a year-ago loss, with help from improved results from its South American operations. Bunge's quarterly earnings topped Wall Street expectations, and the firm left its fiscal year earnings forecast unchanged. However, weather sliced about $13 million off of Bunge's quarterly earnings, CFO John Neppi said on Wednesday.

China's African swine fever epidemic and the U.S.-China trade situation have "altered both typical trade flow and producer marketing patterns," Bunge CEO Greg Heckman told analysts on a conference call.

Meanwhile, Germany-based Bayer this week warned that its 2019 earnings target has become more difficult to reach in view of "the challenging environment" for its Crop Science business. Second-quarter sales for that division were up nearly 60% in the second quarter thanks to the addition of Monsanto in June 2018. However, relative to the year-earlier sales of Bayer and Monsanto combined, they were down 9.9%.

"Flooding and heavy rains in the midwestern United States and drought in large parts of Europe and in Canada had a negative effect. Ongoing trade disputes also weighed on business," Bayer said on Wednesday.

GLYPHOSATE SUITS STILL ON RISE

The wave of lawsuits over the controversial weedkiller glyphosate that has slammed Bayer stock this year shows little sign of letting up. The number of U.S. plaintiffs blaming glyphosate-based weedkillers for their cancer rose by another 5,000 to 18,400. Bayer has seen its market value slashed by more than 30 billion euros since August 2018 when a California jury, in the first such lawsuit, found that Monsanto should have warned of the alleged cancer risks.

TRUMP TARIFF HIKE SPURS NEW DEMAND WORRIES

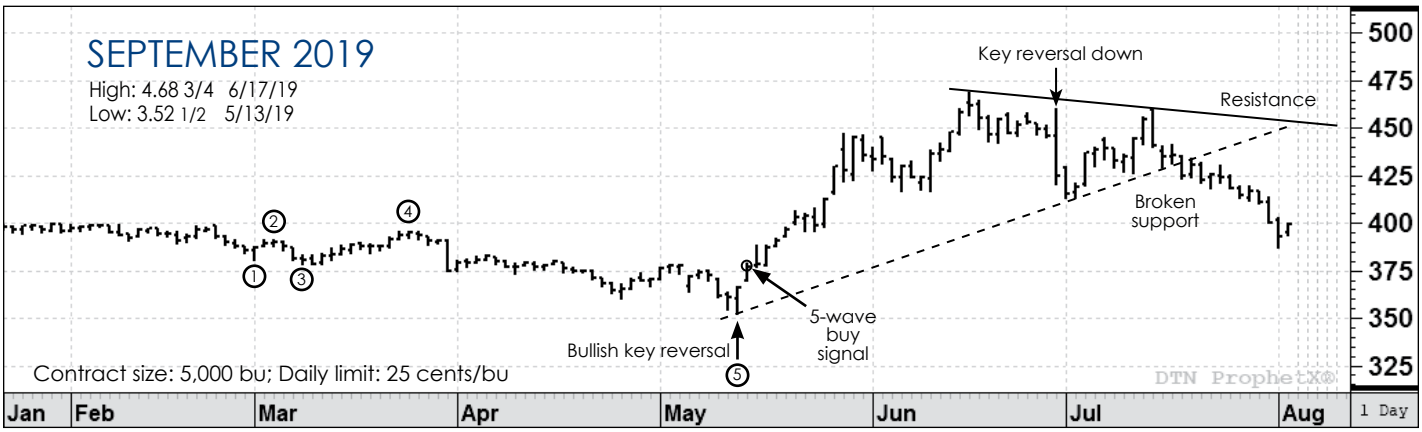
President Trump's move on Thursday to announce a new 10% tariff on $300 billion of Chinese goods — basically all Chinese products not already subject to U.S. tariffs sent a new wave of concerns about U.S. export prospects rippling through grain, soy and livestock futures markets on Thursday. What's more, Trump warned that if China does not move quickly to strike a trade deal, the proposed tariffs could be increased in stages and could rise above the 25% rate that has already been imposed on $250 billion of Chinese goods.

There were rumors in the markets on Friday that Trump might delay or stop the imposition of the additional tariffs on $300 bil. of Chinese goods that he announced yesterday if China took some positive actions. Trump seemed on Wednesday to tie the new tariffs to China's failure to buy more U.S. agricultural products and its failure to curtail exports of the dangerous synthetic opioid fentynal. White House economic advisor Larry Kudlow sidestepped the issue. "I have not heard anything definitive," Kudlow said in an interview with Fox Business Network. "The President's not satisfied with the progress on the trade deal," Kudlow said.

UPCOMING SPEECHES

August 6-7, Martin TN - Mid South Ag Finance Conference
August 8-9, Milwaukee WI - Brock Associates' Commodity Classroom
August 20-21, Mitchell SD - Dakotafest / DeKalb
August 27, Des Moines IA - Iowa Corn Growers
August 28, Medina NY - Western NY Energy
August 29, Mount Joy PA - Mid America Farm Credit

CORN


SEPTEMBER 2019
High: 4.68 3/4 6/17/19
Low: 3.52 1/2 5/13/19
Key reversal down
Resistance
Broken support
5-wave buy signal
Bullish key reversal
Contract size: 5,000 bu; Daily limit: 25 cents/bu
DTN ProphetX®
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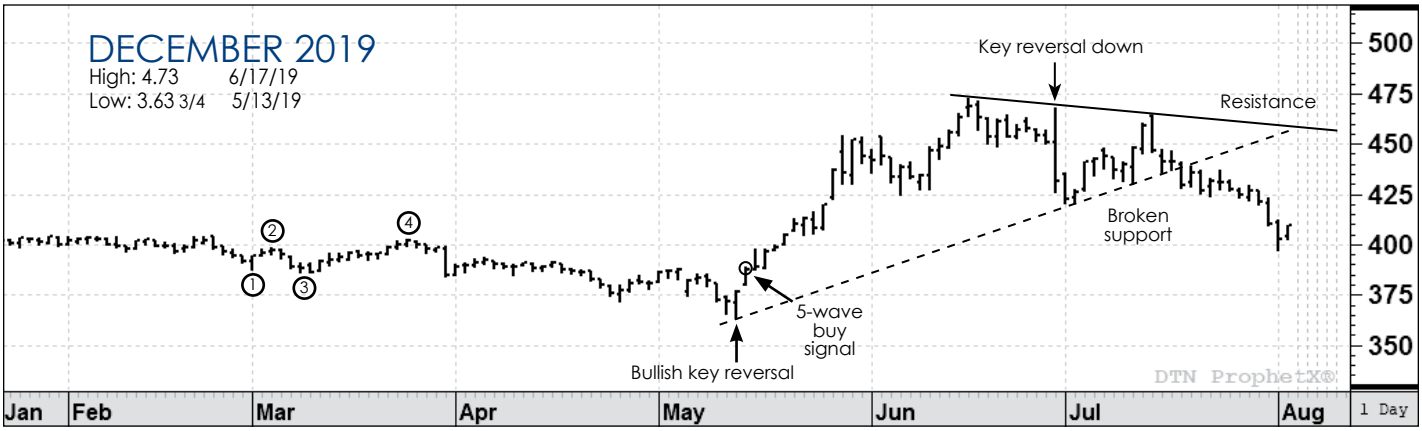
DECEMBER 2019
High: 4.73 6/17/19
Low: 3.63 3/4 5/13/19
Key reversal down
Resistance
Broken support
5-wave buy signal
Bullish key reversal
DTN ProphetX®
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425
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375
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MARCH 2020
High: 4.76 6/18/19
Low: 3.78 1/2 5/13/19
Key reversal down
Resistance
Broken support
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WEEKLY CONTINUOUS
Key reversal down
Support
Bullish key reversal
DTN ProphetX®
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COMMENTARY

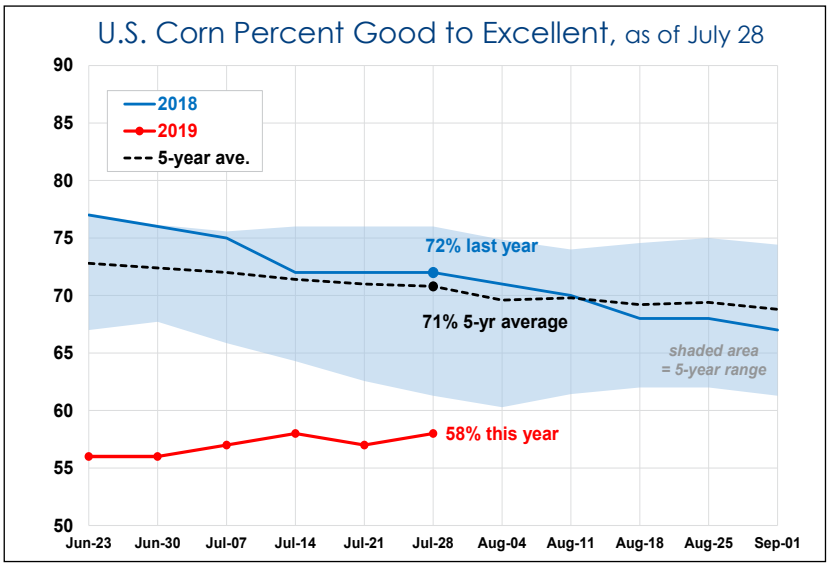
On Thursday, Trump's announcement of new tariffs on China sent the financial and commodity world into a downward spiral. While many will want to blame this decision for the downtrend, the market was headed down already. As pointed out last week when we switched from being a modest bull to a bear, all the technical signals were in place to sell this market.

Demand has been getting hit hard from the ethanol industry and the export market as well as feed usage. USDA seems likely to lower its old-crop corn-for-ethanol usage estimate in August and could lower exports a bit further, boosting an already-large old-crop carryout. Concentration has been on yield, planted and harvested acreage. That will continue for another month.

Technically, the corn market has made a major top. The trend is down. Rallies need to be sold. The good news is that the selloff on Wednesday and Thursday took prices down into major support, and there is a reasonable possibility that this will be a short-term bottom. Key resistance is now $4.20 to $4.30 basis December futures. Any rallies into that price zone need to be used for making catch-up sales.

Cash-Only Marketers' Strategy: Old-crop has been gone for awhile. In the new crop, we are sitting at 30% forward contracted. Sit tight.

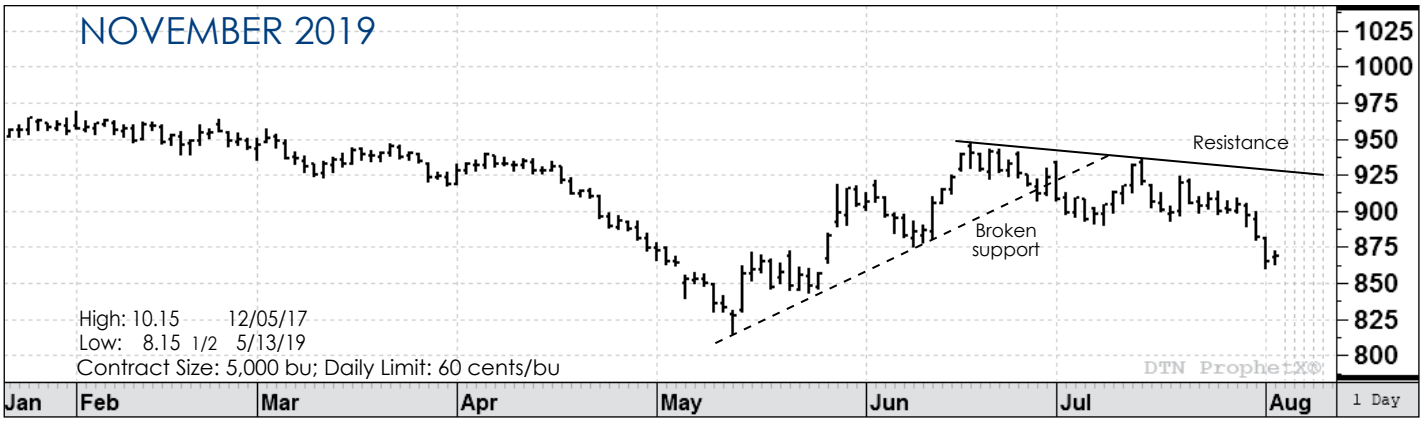
Hedgers' Strategy: 100% sold on old-crop. Cash sales on forward cash contracts are at 20% and hedges are at 30% for a net 50% priced in the 2019/20 crop. We are also short September 2020 corn on 10% of the 20/21 crop. We will be using rallies to add to those positions.



U.S. SUPPLY & DEMAND

	USDA			Brock	
Marketing year begins Sept 1	17/18	18/19 Est.	19/20 Proj.	18/19 Est.	19/20 Proj.
ACREAGE (million)					
Planted Area	90.2	89.1	91.7	89.1	89.0
Harvested Area	82.7	81.7	83.6	81.7	81.0
Yield	176.6	176.4	166.0	176.4	164.0
SUPPLY (mil bu)					
Beg. Stocks	2,293	2,140	2,340	2,140	2,340
Production	14,609	14,420	13,875	14,420	13,284
Imports	36	35	50	35	50
Total Supply	16,939	16,595	16,265	16,595	15,674
USAGE (mil bu)					
Feed & Residual	5,304	5,275	5,175	5,275	5,150
Food/Seed/Ind	7,057	6,880	6,930	6,880	6,800
Ethanol & By-Products	5,605	5,450	5,500	5,450	5,350
Domestic Use	12,361	12,155	12,105	12,155	11,950
Exports	2,438	2,100	2,150	2,100	2,150
Total Use	14,798	14,255	14,255	14,255	14,100
Ending Stocks (Aug 31)	2,140	2,340	2,010	2,340	1,574
Stocks/Use	14.5%	16.4%	14.1%	16.4%	11.2%
Farm Price ($/bu)	$3.36	$3.60	$3.70	$3.60	$4.20-5.20

SOYBEANS


NOVEMBER 2019
Resistance
Broken support
High: 10.15 12/05/17
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Contract Size: 5,000 bu; Daily Limit: 60 cents/bu
DTN ProphetX®
1025
1000
975
950
925
900
875
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825
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JANUARY 2020
Resistance
Broken support
High: 10.10 3/4 3/29/18
Low: 8.29 1/2 5/13/19
DTN ProphetX®
1025
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MARCH 2020
Resistance
Broken support
High: 10.10 3/08/18
Low: 8.41 1/2 5/13/19
DTN ProphetX®
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WEEKLY CONTINUOUS
Resistance
Bullish key reversal
DTN ProphetX®
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COMMENTARY

It has been a tremendous week for those who are short futures and a miserable one for those who are not. Fortunately, we were short so it was a good week. That was then, this is now.

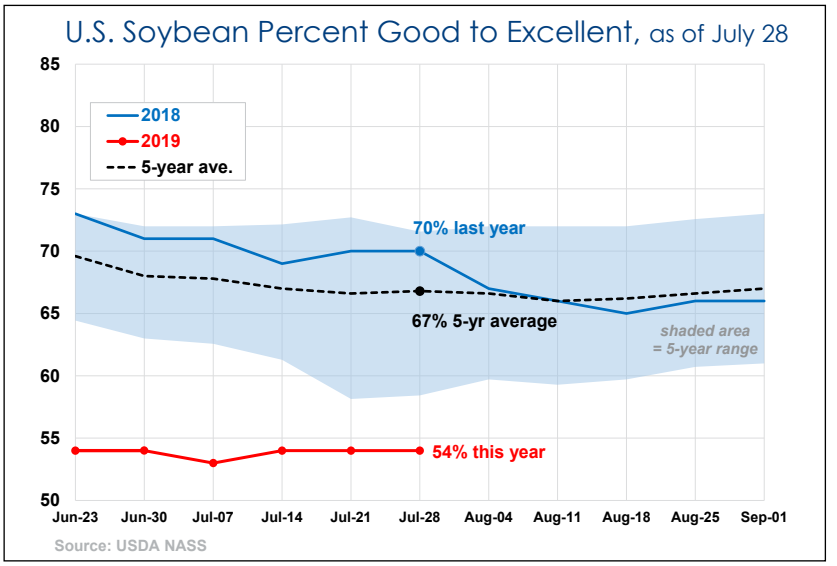
Fundamentally, as everyone knows, the crop is way behind. It's anyone's guess what the final yield will be and what the final acreage will be. The Aug. 12 Crop Report should give us a better idea of acreage, but may be of little help on yield.

Technically, Thursday's collapse could well have been an exhaustion phase. Take a close look at the November soybean chart. Thursday's low filled a gap in the charts that was left on May 28. This should at least be a temporary bottom. It is unlikely the fundamentals will be bullish enough for this market to make new highs, but after Thursday's sharp decline, the odds of November beans getting back above $8.90 are at least reasonably high.

Any rallies in this market need to be sold. This is a bear market—not the bull market that many people want and keep hoping for. Supply side has some issues but it is more than offset by very weak demand and terrible exports. Advance export sales for next marketing year are off to a horrible start and without a trade deal with China, the room for improvement is limited.

Cash-only Marketers' Strategy: Old-crop is long gone. New-crop sales are at 20%. On any rallies back above $8.90, we will likely add to sales.

Hedgers' Strategy: Old-crop is long gone. New crop is 10% contracted and 40% hedged in November futures at an average price of approximately $9.13 ½. On moves above $8.90, it will be advisable to catch up on pricing.



U.S. SUPPLY & DEMAND

	USDA			Brock	
Marketing year begins Sep 1	17/18	18/19 Est.	19/20 Proj.	18/19 Est.	19/20 Proj.
ACREAGE (million)					
Planted Acres	90.2	89.2	80.0	89.2	83.0
Harvested Acres	89.5	88.1	79.3	88.1	82.2
Yield	49.3	51.6	48.5	51.6	48.5
SUPPLY (mil bu)					
Beg. Stocks	302	438	1,050	438	1,050
Production	4,412	4,544	3,845	4,544	3,987
Imports	22	22	20	17	20
Total Supply	4,735	4,999	4,915	4,999	5,057
USAGE (mil bu)					
Crush	2,055	2,085	2,115	2,085	2,125
Exports	2,134	1,700	1,875	1,700	1,925
Seed	104	93	96	93	98
Residual	5	72	34	72	32
Total Use	4,297	3,949	4,120	3,949	4,180
Ending Stocks (Aug 31)	438	1,050	795	1,050	877
Stocks/Use	10.2%	26.6%	19.3%	26.6%	21.0%
Farm Price ($/Bu)	$9.33	$8.50	$8.40	$8.50	$8.25-9.25

DO OUR FARM KIDS HAVE IT TOO EASY?

Jason Moss
Senior Marketing Consultant

On family farms, generation after generation calls out the next for not having to work as hard on the farm as the one before it. Maybe this has been true since the beginning of time, but it's definitely been true over the last couple centuries with the technological advances in agriculture over that time. More manual labor has been the hindsight context. Pioneer settlers of the mid-1800's remembered the less productive days before the steel plow covered enough acres to be able to feed more than your family. Depression kids remembered horses before tractors, and their children shelling corn by hand before combines. As for myself, I recall cabless tractors before luxurious, auto-steering, high horse power ones.

I have to remind myself of this cycle because it's my time. I'm prone to doubt whether I am adequately passing on to my children one of the most significant portions of my identity: The work ethic molded from how hard I had to work on the farm as a kid. But when I put it in the perspective that nearly every generation before me could make the same case, I feel better.

The truth is that with each farming generation's improved quality of working life by innovation, came greater efficiencies, production potential and new capabilities required to manage the operation. The needs of the farm change and aptitude of the farmer adjusts with it.

An affinity for technology on the farm will move from useful to very valuable over the next generation. I have kids, all in grade school, that love using technology to communicate, to learn and to play. We can want the grit of manual labor to be a right of passage into the family farm all we want, but we have to acknowledge that the type of farmer it takes to be successful is a moving target. And that target is moving away from working hard and toward working smarter.

At the basic level, I have a visceral fear of the implications of my children not working as many hours and not having as much responsibility as I did at their age. But then there's hope. When I start to worry about raising my kids too soft, having too many fun activities in the summer instead of walking beans like I did in the early 90's, I can already see the writing on the wall, and the font is irony. The competencies to run a farm in 20 years look a lot closer to the skillset my children have than to my own skillset at their age.

One day, history will show that we are now living in the farming generation where tech-savvy trumps toughness. Almost anybody over age 60 is notorious for thinking that their grandchild is the next Einstein by the ease they navigate the latest phone or tablet. But from someone between those two ages, what grandpa can't do is now the more uncustomary behavior than what grandson can. The aged farmer that doesn't even know what syncing or downloading data from the cloud is will move from a living memory of simpler days to the minimum bar to stay in business. I'm not saying you have to understand it to be able to farm, but that there is a growing place for those who do.

I may not be able to relate to my father's stories of farrowing pigs outside, or he to his father shucking and shelling corn by hand before him, but I still found a way to develop the abilities to manage successfully with a different set of experiences. If my father can accept that I don't need to be able to identify as many species of weeds to be a successful farmer as he did in his 30s, then I'll have to accept (over the next 20 years) that I'm probably going to have kids at the same age that won't relate to manually steering a tractor without GPS guidance.

With that, I endeavor to not repeat the mistake of past generations by looking at my children as any less for having it easier—because I'm going to need that tech savvy kid to run my farm someday, and, he's training up for the job more than I realize already.

-Email Jason at jmoss@brockreport.com

Rice: We added a 10% sale for all marketers mid-week as the rally in futures ran out of buyers, retreating back under $12.00/cwt. We have been saying that the prevent plant acres reported this month would be positive for rice, but it seemed that most or all of this had been built in to the price pre-report. We did contemplate a larger sale, but thought being 40% priced this early was plenty ample, so limited it to an additional 10%.

The tables below show basis levels for corn and soybeans this week compared to a week ago. Soybean basis has been adjusted to reflect a change from the August to the November contract. While both have softened in general and appear to have peaked for the time being, they are still pretty strong compared to historical levels. The Central Illinois locations we use for our track record are 30 cents better than the same time last year and 25 cents above the 3 year average. For soybeans, it is a whopping 80 cents and 42 cents better, respectively.

This year in particular there is tremendous regional variability due to Eastern Corn Belt crop issues, but the point is that while we have advised setting basis without pricing futures recently in this column, its not too late! Futures action has been demoralizing this past week to say the least, but that doesn't mean there isn't something positive we can do marketing-wise. If you did not set basis previously, or did just a little bit, consider doing so now. We repeat ourselves, but, eventually, end users will secure supply and basis will soften. Its easy to watch futures go up... and watch them go back down, so try to avoid doing the same on basis.

While we will publish one more Brock Report issue prior to the USDA report on August 12th, it is not too early to start thinking about placing orders above the market prior to the report. We have often advocated "planning the next sale." There is no telling where futures will be just before the report, but if you have a price in mind that "if it just gets back there, I will sell"… and we are anywhere near it prior to the report, get that order placed now while your thinking is clearer. Prices often fluctuate wildly just after USDA reports, making it possible for orders well above the pre-report market to get triggered, only to have the prices fall back once all participants have had a chance to digest and react to new information.

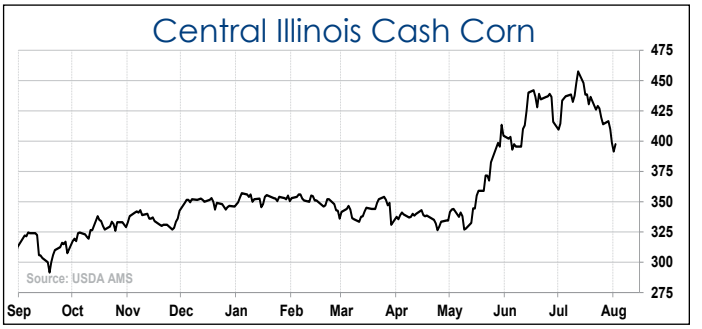
Spot Basis Bids

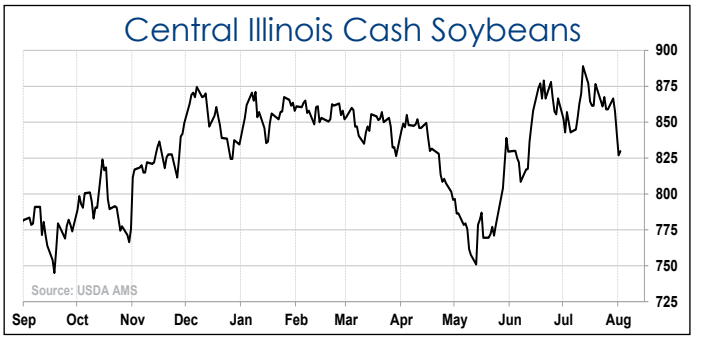
Corn basis bids	Spot Delivery Jul 25	Aug 1	Change*
Cedar Rapids, IA	13 U	8 U	-5
Fort Dodge, IA	12 U	5 U	-7
Peoria, IL	19 U	17 U	-2
Champaign, IL	12 U	12 U	0
Lafayette, IN	51 U	50 U	-1
Blair, NE	13 U	10 U	-3
Marshall, MN	8 U	8 U	0
Dalhart, TX	15 U	15 U	0
Mitchell, SD	0 U	0 U	0
U.S Gulf, NOLA	60 U	47 U	-13

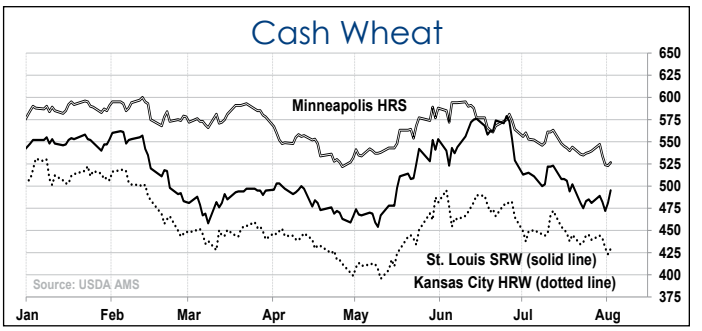
Soybean basis bids	Spot Delivery Jul 25	Aug 1	Change*
Cedar Rapids, IA	-50 Q	-57 X	11
Burlington, IA	-36 Q	-45 X	9
Quincy, IL	-8 Q	-35 X	-9
Champaign, IL	-27 Q	-44 X	1
Decatur, IN	10 Q	-33 X	-25
Kansas City, MO	-30 Q	-30 Q	0
Brewster, MN	-55 Q	-70 X	3
Lincoln, NE	-70 Q	-80 X	8
Grand Island, NE	-102 Q	-114 X	-12
Mitchell, SD	-94 Q	-112 X	0
Memphis, TN	10 Q	-15 X	-7
U.S Gulf, NOLA	69 Q	48 Q	-21

Sources: USDA AMS, DTN ProphetX, Dow Jones Newswires

* Change includes the effect of 18¢/bu Aug/Nov soybean spread on Aug. 1

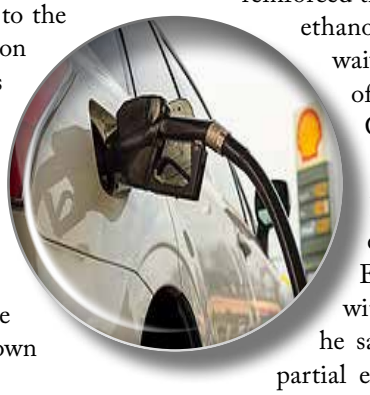






ETHANOL OUTPUT DOWN, STOCKS UP

U.S. ethanol stocks rose to a record high at the end of last week amid weak demand, even as production fell to the lowest level in 13 weeks. The Energy Information Administration pegged nationwide ethanol stocks at nearly 24.5 million barrels, up 700,000 from a week earlier and up a hefty 11.4% from a year earlier. Weekly production was put at 1.031 million barrels per day, down 8,000 from a week earlier and down 3.1% from 1.064 million a year earlier. Gasoline demand for the summer driving season appears to have peaked. Weekly gasoline demand of 9.559 million barrels per day was down 116,000 from a week earlier.



GREEN PLAINS SEES INDUSTRY CUTBACKS

Production cuts are expected to continue and accelerate in the coming weeks. Green Plains CEO Todd Becker told Reuters that producers are running out of money and will begin austerity measures. "Some plants will slow down, some will shut down, some will shut down forever," Becker said.

Ethanol output climbed through the early summer despite an extended stretch of negative margins. The company has in the past taken different approaches during downturns. This time, it is positioned to maintain production, Becker said. "We can't be the governor of supply alone. We have the liquidity and the balance sheet and we are going to let other people do the job."

EPA GOES ITS OWN WAY ON WAIVERS

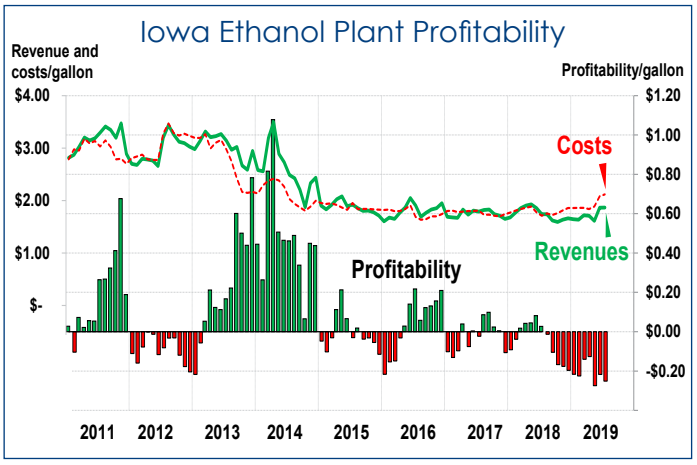
Industry officials say that while the federal regulatory change allowing E15 is nice, the bigger issue for the industry is the RFS "hardship" waivers granted by EPA to refiners. EPA chief Andrew Wheeler, said this week that a delayed decision on waivers for 2018 is expected in the coming weeks, or a month at most. Decisions on the waivers were nearly finalized months ago, but President Trump ordered a review after a visit to Iowa reinforced the importance of the issue to the industry. The ethanol and oil industries continue to battle over past waivers issued in 2016 and 2017. The Department of Energy said in a letter to U.S. Sen. Chuck Grassley, R-Iowa, last week that EPA did not always follow its recommendations.

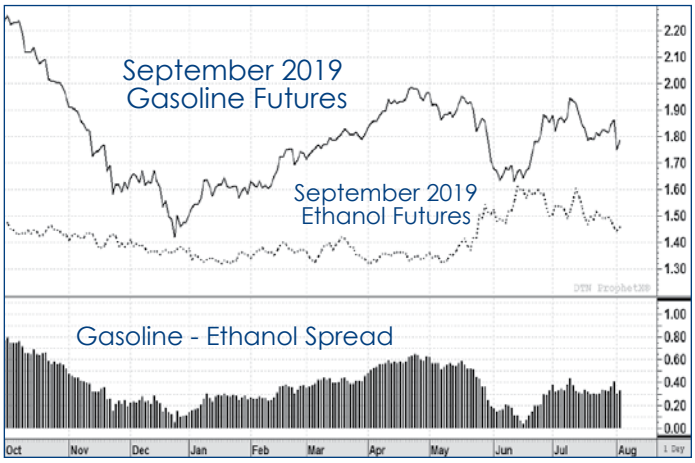
In at least one case, EPA granted an RFS exemption against DOE's recommendation, Energy Secretary Rick Perry (never confused with a friend of ethanol) said in a letter. In addition, he said that while DOE sometimes recommends partial exemptions, the EPA has never granted one. Grassley was not happy. "President Trump delivered on E15, but EPA has been undermining the president's commitment to Iowa, the Midwest and rural America," Grassley said in a statement. "I hope the White House puts an end to these handouts to Big Oil that hurt American farmers."

COALITION SEEKS COURT ACTION

A coalition of seven agriculture and biofuels groups on July 30 petitioned the U.S. Court of Appeals for the District of Columbia Circuit to lift a stay it placed on a joint 2018 petition asking the court to protect the renewable fuels industry from undue harm caused by the EPA. The petition asks EPA to revise its Renewable Fuel Standard regulations to account for small refinery exemptions (SREs) the agency issues retroactively. EPA's current regulations factor in only future SREs granted prior to the compliance year, even though most exemptions granted in recent years have been for compliance periods that had already ended.

"Thirteen months have passed since the filing of the petition, without even a proposed substantive response from EPA," the coalition wrote in its court filing. "Meanwhile, the agency has shown through various actions that it is not genuinely considering the coalition's administrative petition and has, in effect, denied it.





COMMENTARY

The fundamentals are negative and the chart pattern looks even worse. For the most part, wheat futures right now are following corn. This week's massive sell-off took prices into some significant support that should at least be a temporary bottom.

While U.S. export sales have been good in early 2019/20, export competition will be stiff over the next several months. Russia's crop is still large and EU production has recovered significantly this year. Meanwhile, U.S. wheat stocks are ample.

The low on Thursday in December wheat futures was almost a 75% retracement of the bull market that started in mid-May. As of now, we can reasonably expect to see a correction in this market, in which case the target in December futures is $4.90 to $5.10. Any rally into that price area should be used for catch-up sales. This is a bear market.

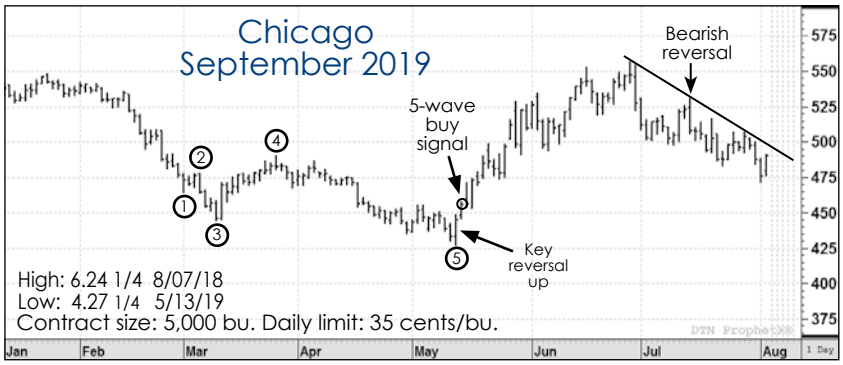
Time is on everyone's side but that frequently leads to pushing off decisions. As of right now ,we're sitting at 60% sold for everyone from much higher price levels and prefer to wait for rallies back before adding to sales.

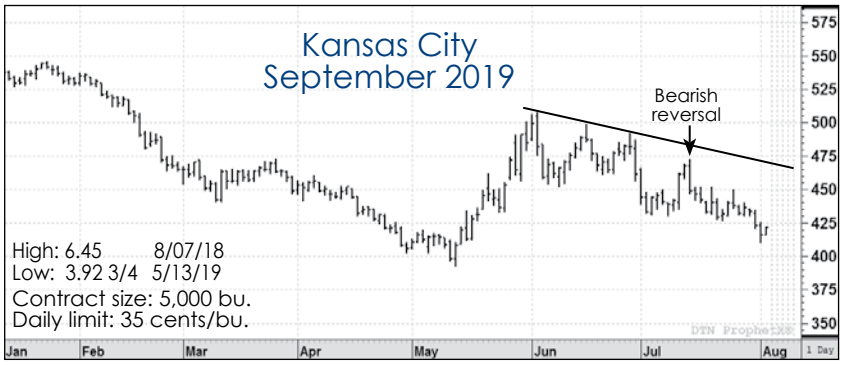
Cash-Only Marketers' Strategy: Stay at 60% sold for right now. Use any rallies above $4.90 in December futures to catch up.

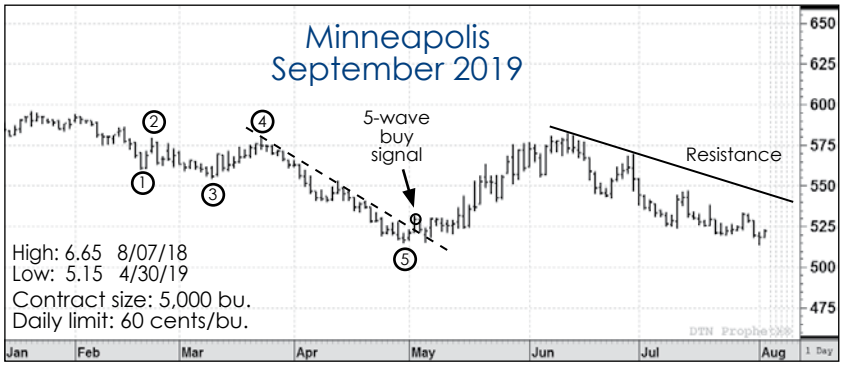
Hedgers' Strategy: Same cash advice as above. We have no futures hedges on.

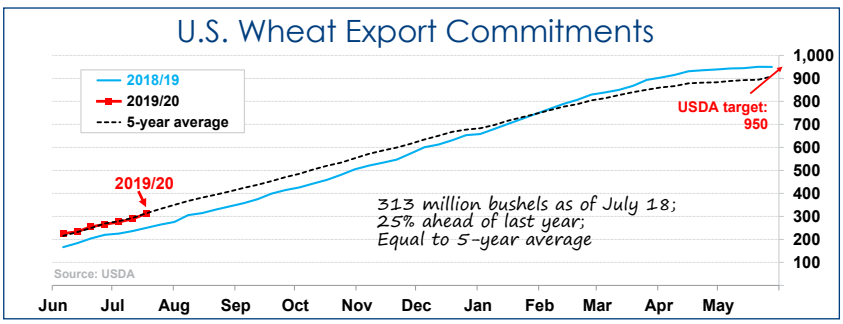
U.S. SUPPLY & DEMAND

	USDA		Brock	
Marketing year begins June 1	18/19 Est.	19/20 Proj.	18/19 Est.	19/20 Proj.
ACREAGE (million)				
Planted Area	47.8	45.6	47.8	45.6
Harvested Area	39.6	38.4	39.6	38.6
Yield	47.6	50.0	47.6	49.9
SUPPLY (mil bu)				
Beg. Stocks	1,099	1,072	1,099	1,072
Production	1,884	1,921	1,884	1,926
Imports	135	140	135	135
Total Supply	3,118	3,133	3,117	3,133
USAGE (mil bu)				
Food/Seed	1,020	1,033	1,019	1,035
Feed & Residual	91	150	90	140
Domestic Use	1,110	1,183	1,110	1,175
Exports	936	950	936	950
Total Use	2,046	2,133	2,046	2,125
Ending Stocks (May 31)	1,072	1,000	1,072	1,008
Stocks/Use	52.4%	46.9%	52.4%	47.5%
Farm Price ($/Bu)	$5.16	$5.20	5.15-5.25	4.95-5.55

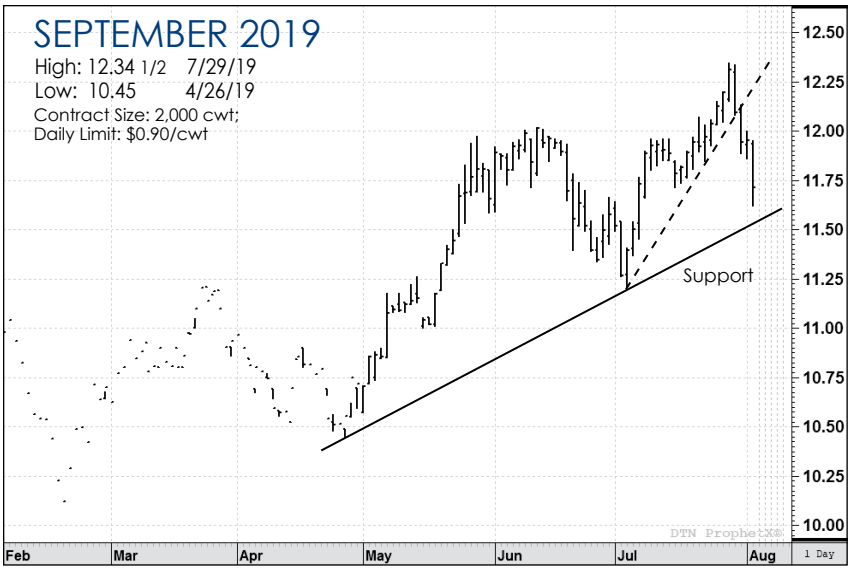








RICE



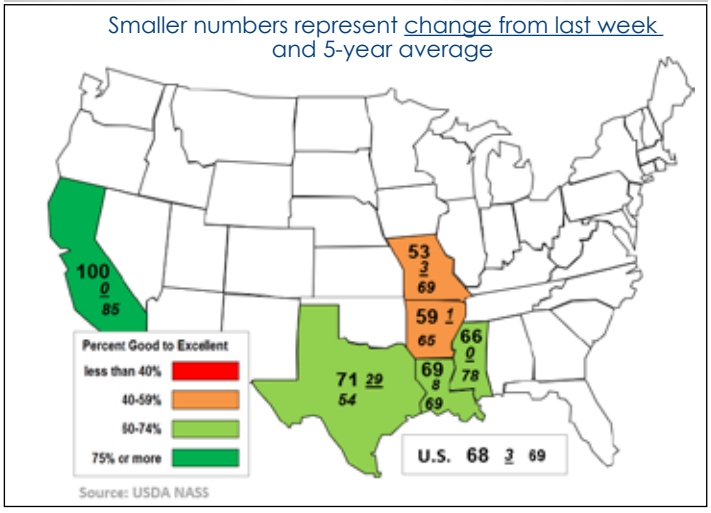
COMMENTARY

Deterioration in this year's crop helped propel prices to new highs early in the week. Our estimate for production is 191.2 million cwts versus last year's 224. This will reduce carryover from 82.6 million cwts to 36.9.

Nevertheless, this cut does not justify the sharp rise in prices of the last couple of weeks. The market came to that realization on Tuesday after hitting some fairly key technical objectives. That was a signal for us to increase sales another 10% taking everyone to 40% priced.

Strategy: Early in the week, sales were pushed from 30% to 40%. On any rallies back in the September futures above $12.00 use that as an opportunity to catch up if you're not at our recommended levels. Tuesday was a classic five wave sell signal, and that typically leads to a fairly substantial and quick drop in prices. Be prepared.

Rice Condition as of July 28, Percent Good/Excellent



U.S. SUPPLY & DEMAND

	USDA			Brock	
Marketing year begins Aug 1	17/18	18/19 Est.	19/20 Proj.	18/19 Proj.	19/20 Proj.
ACREAGE (Mil. Acres)					
Planted Area	2.46	2.95	2.76	2.95	2.52
Harvested Area	2.37	2.92	2.71	2.92	2.49
Yield (Pounds)	7,507	7,692	7,698	7,692	7,680
SUPPLY (Mil. cwt)					
Beg. Stocks	46.0	29.4	51.6	29.4	52.6
Production	178.2	224.2	208.7	224.2	191.2
Imports	27.5	29.0	29.2	29.0	27.0
Total Supply	251.8	282.6	289.5	282.6	270.9
USAGE (Mil cwt)					
Domestic & Residual	135.4	139.0	138.0	138.0	136.0
Exports	87.1	92.0	101.0	92.0	98.0
Rough	28.8	34.0	38.0	34.0	36.5
Milled (Rough Eq.)	58.2	58.0	63.0	58.0	61.5
Total Use	222.4	231.0	239.0	230.0	234.0
Ending Stocks	29.4	51.6	50.5	52.6	36.9
Farm Price ($/cwt)	12.90	12.00	11.80	11.80-12.20	11.75-13.75

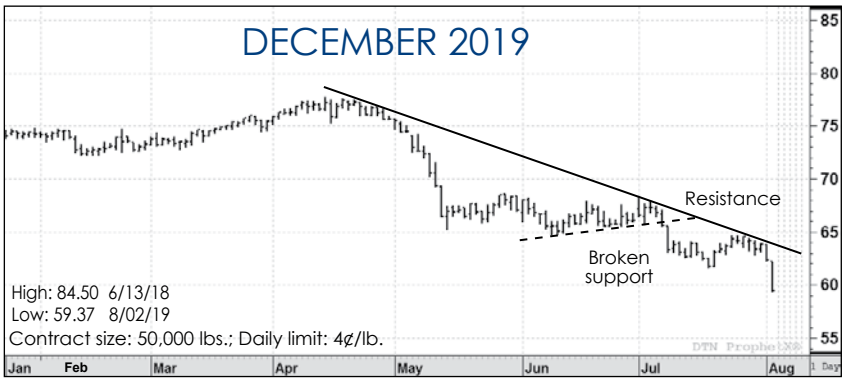
COMMENTARY

Despite December futures knocking on the door of resistance at 64.70 late last week and having it peak open a bit, it got slammed shut Thursday as a 27 month high in the dollar and another round of tariffs with China sent December futures tumbling. Futures gapped lower Friday and never looked back, charting new contract lows at a whopping 283 points down at mid day. Volume has been relatively light for the past four weeks, but picked up considerably Thursday and Friday- a troubling sign.

On the bright side, export sales were better than expected at 424,200 running bales. Vietnam continues to be the 800 pound buying gorilla, but the market was still deep with 16 other markets making purchases. Shipments, however, were just 297,200 bales, thus it would seem that USDA's export target of 14.5 million bales will fall a bit short as there are just a few days left of the marketing year to report. Unshipped sales carried over to the new year are a healthy 2.5 million bales. Combined with previously reported sales for the 19/20 marketing year, the market has a solid start on exports.

Large speculators increased their short position slightly and appear to be the only sellers in this market as farmers are unlikely to sell here. Presumably, any positive trade news would spur some speculator liquidation, rallying the market, but there is scant evidence of any trade deal near term.

Strategy: Old crop is 100% sold for all marketers. Cash-only marketers should be 30% priced and hedgers should be 20% priced in the cash market with healthy hedge gains from late spring.

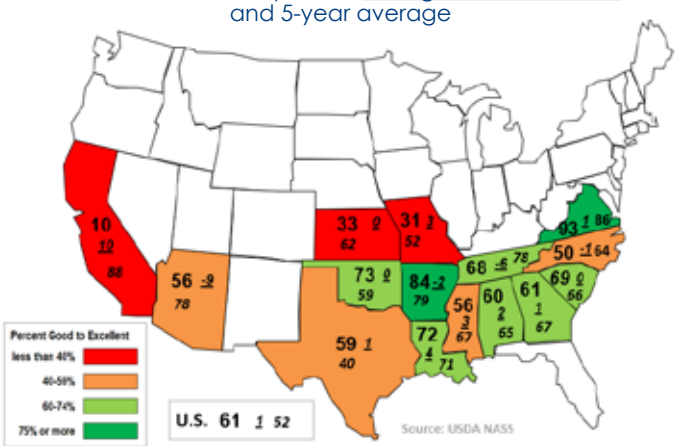


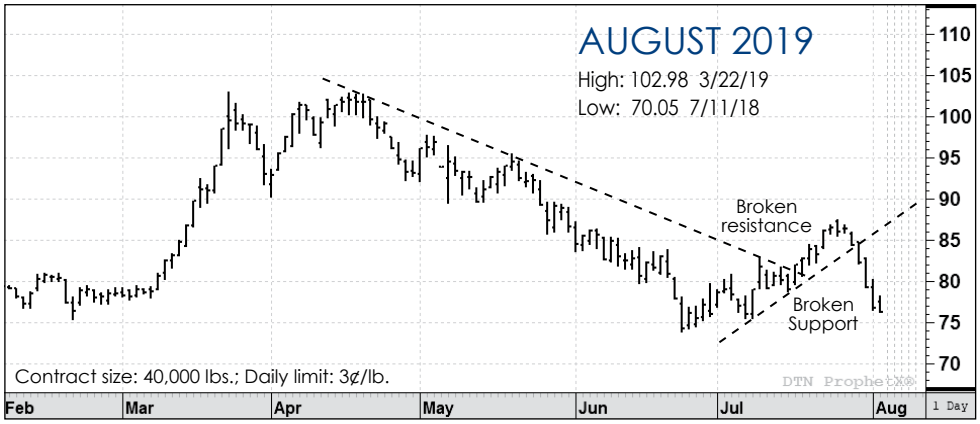
U.S. SUPPLY & DEMAND

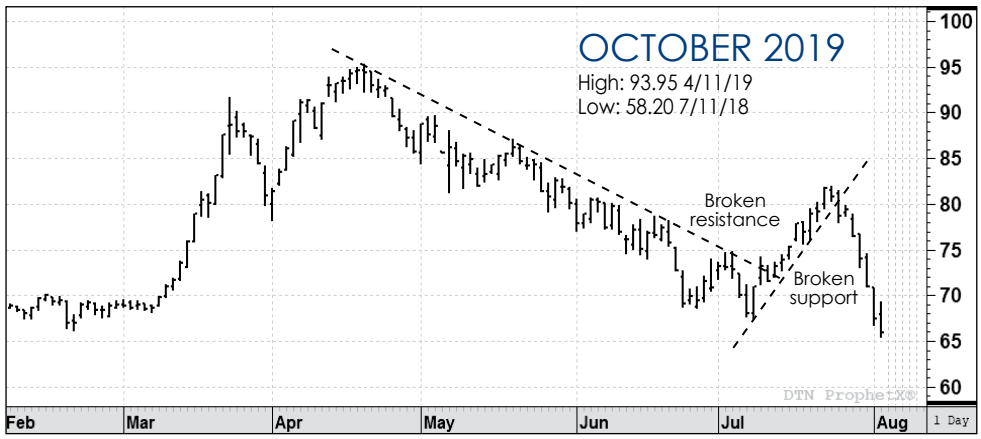
Marketing year begins Aug 1	USDA 17/18	USDA 18/19 Est.	USDA 19/20 Proj.	Brock 18/19 Proj.	Brock 19/20 Proj.
ACREAGE (million acres)					
Planted Area	12.72	14.10	13.72	14.04	14.00
Harvested Area	11.10	10.21	12.49	10.55	12.08
Yield	905	864	845	850	860
SUPPLY (million 480-lb. bales)					
Beginning Stocks (August 1)	2.75	4.30	5.00	4.30	4.98
Production	20.92	18.37	22.00	18.68	21.64
Imports	0.00	0.01	0.01	0.00	0.00
Total Supply	23.68	22.67	27.01	22.98	26.62
USAGE (million 480-lb. bales)					
Mill Use	3.23	3.00	3.10	3.10	3.20
Exports	15.85	14.50	17.00	14.75	17.00
Total Use	19.07	17.50	20.10	17.85	20.20
Unaccounted	0.30	0.17	0.21	0.15	0.00
STOCKS (million 480-lb. bales)					
Ending Stocks (July 31)	4.30	5.00	6.70	4.98	6.42
Farm Price (¢/lb)	68.6	70.00	63.00	70-74	60-68

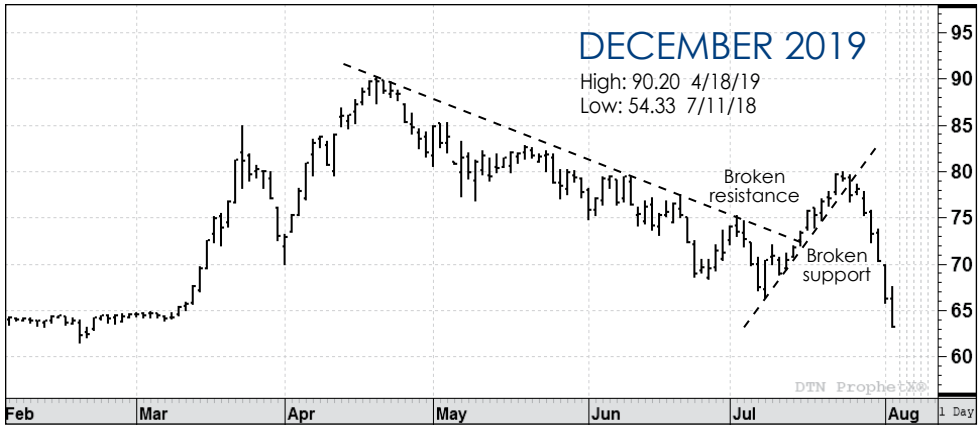
Cotton Condition as of July 28, Percent Good/Excellent

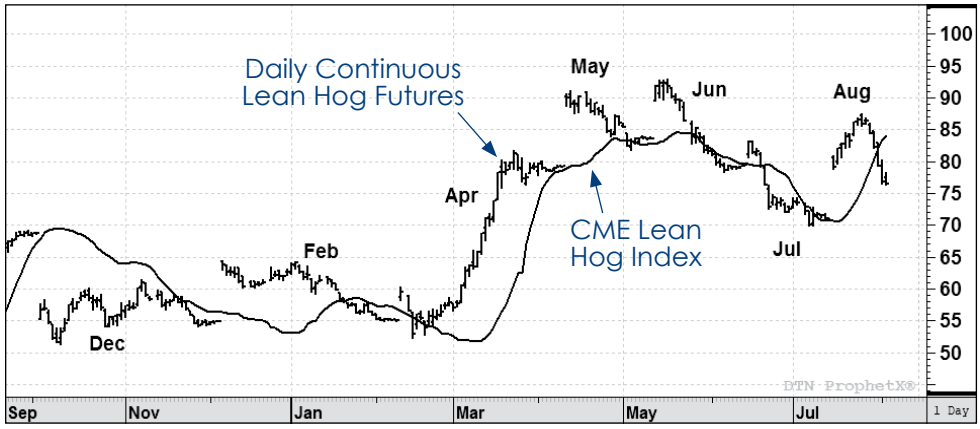
Smaller numbers represent change from last week and 5-year average











COMMENTARY

This was a nightmare of a week in the hog industry with futures and cash prices crashing under pressure from discouragement over U.S.-China trade talks and ample hog supplies. President Trump's Thursday announcement of new tariffs on Chinese goods only extended the nightmare. Late in Friday's session, most-active Oct. lean hog futures were down a whopping $13.32 or 16.8% for the week.

With 20-20 hindsight, we can say this is a market we should have been short in, but the futures fell apart faster than we could have imagined and, at this point, we are not of a mind to be chasing this bearish freight train. Having crashed through their July price lows, Oct. through June futures are now in fifth waves to the downside, which should be their final downward waves. The futures market has also seemingly removed any Chinese demand premium that was built into it and market volatilty has hit new highs.

That said, if Oct. futures close below $66.10, they could head for an old gap below $62.50 on their daily price chart and the next support for Dec. futures is at their February lows near $61.50. Bears can argue that, based on their July upward correction, Dec. futures have a downside objective of about $56.20. That sounds extreme, but remember, Dec. 2018 futures expired near $55.00 and U.S. hog supplies are larger this year, while Q4 demand is now a huge questionmark.

Cash hog markets weakened substantially this week, but nowhere near as much as futures. The national average negotiated cash carcass value was down $5.36 in the week ended Thursday. The wholesale pork market was firm, with the composite pork cutout value rising $3.91 in that same period. Hog weights did finally slip somewhat this week, easing supply pressure. Rising hog supplies will likely keep pressure on cash prices in coming weeks, expecially with packers trying to boost weak operating margins.

Hedgers' Strategy: Hedgers should remain aside the futures market for now. Market volatility has become extreme.

COMMENTARY

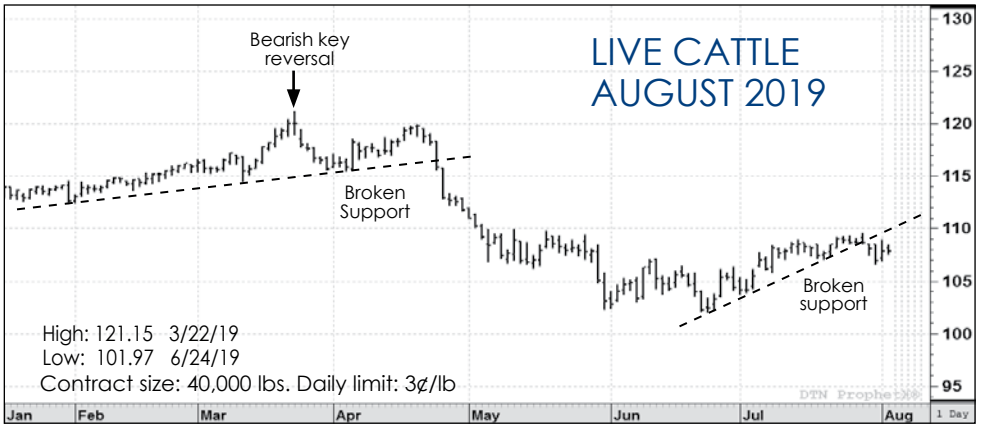
Live cattle futures took a tumble along with hog futures early in the week before mounting a short-lived rally on Thursday on apparent support from firm cash trade. Futures turned lower again on Friday, though amid the continued hog market collapse and U.S.-China trade tensions, with most-active Oct. live cattle posting their lowest close in five weeks. Most feeder cattle contracts collapsed to one-month lows this week with selling accelerating on Friday amid demand worries and technical weakness.

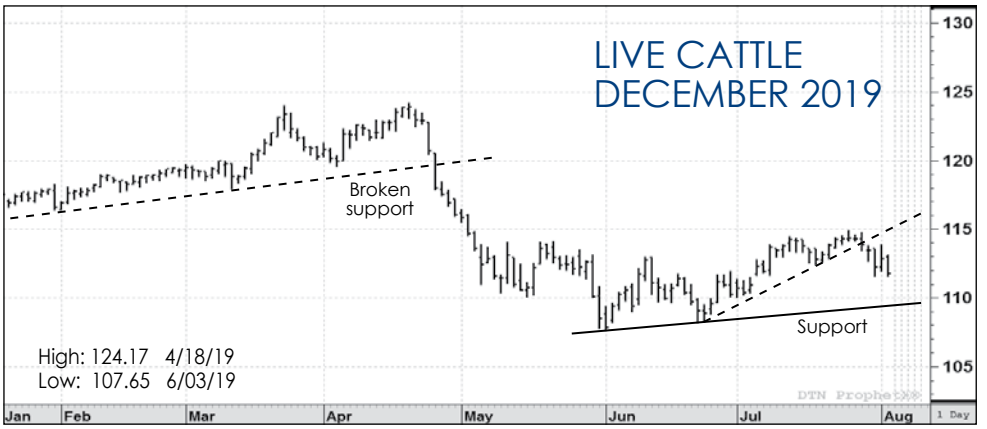
Live cattle futures appear to have put in at least a short-term top. After charting a bearish key reversal off of a 3-month high on Monday, most-active Oct. futures wound up with an outside week down. An Oct. close below $107.10 will likely open further downside to at least the $105.00-$106.00 range. For Dec. futures, a breakout below $111.55 will open downside risk back to $108.00-$110.00.

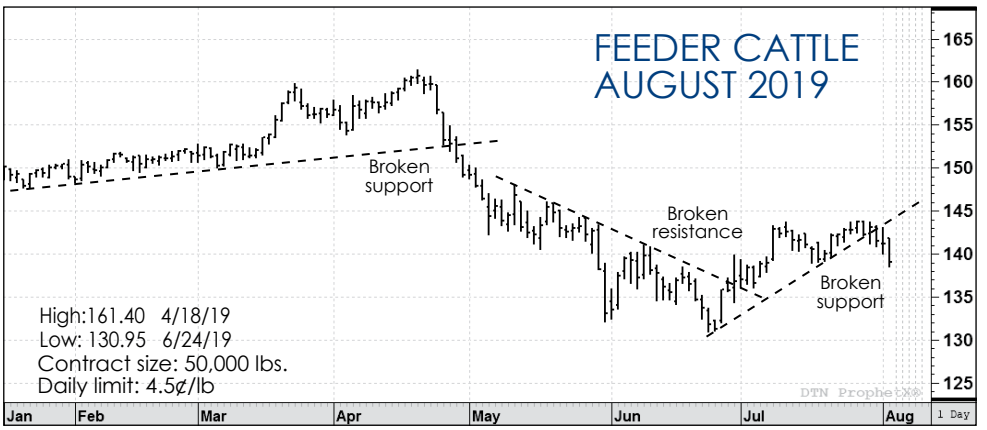
Plains direct cash markets were generally firm this week, with moderate live cattle trade occuring at midweek in Kansas at $111, down $1 from last week, while light live trade in Nebraska was at $114, versus last week's $114-$115. This week's negotiated sales volume was unimpressive as of Friday morning, but more trade was taking place as of midday. The wholesale beef market showed some life, with the choice cutout value strengthening $1.67 during the week ended Thursday.

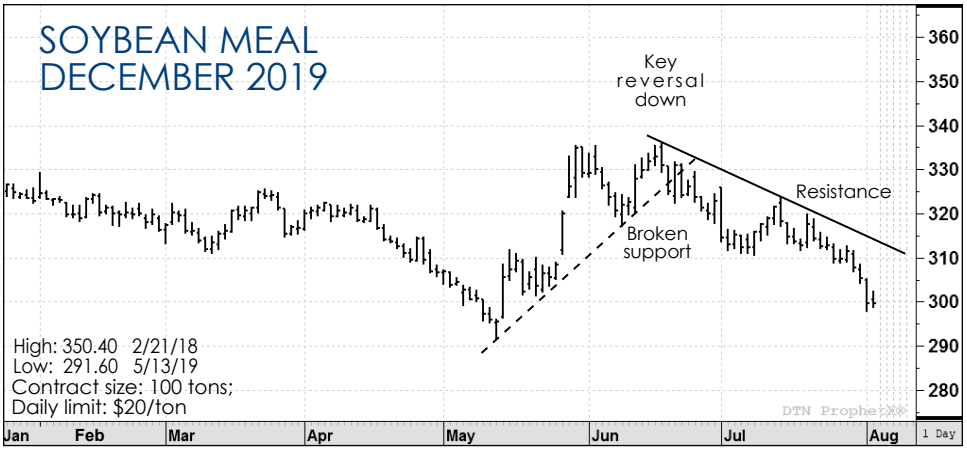
While cash prices were firm this week, sales volume remains worrying. We fear feedlots are falling behind on marketings, which may lead to larger market-ready supplies in late summer and fall. Cattle weights have been creeping upward for several weeks now, although they remain below last year.

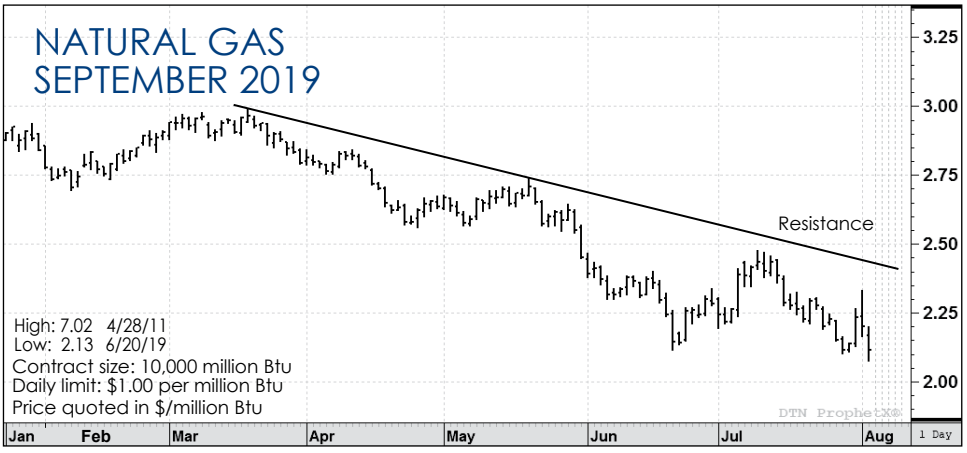
Hedgers' Strategy: Fed cattle hedgers sold Dec. 2019 futures against 50% of Q4 marketings on Tuesday. Feeder cattle sellers sold Oct. 2019 feeder futures on Friday against 25% of Q4 sales. Feeder buyers remain aside futures.

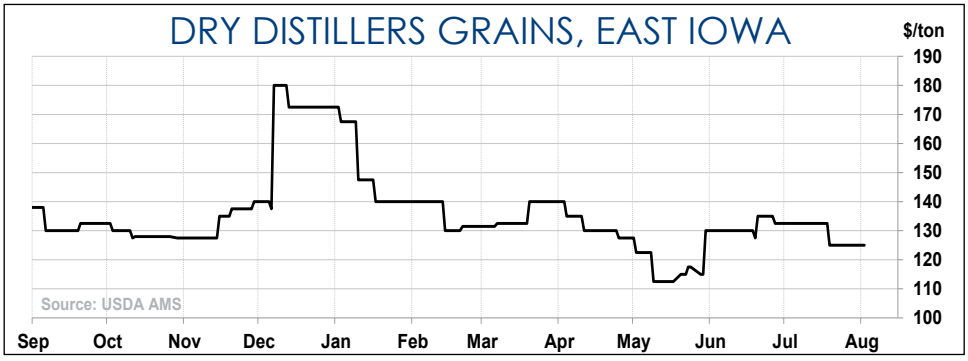












COMMENTARY

Feed: Soybean meal futures continue to be under substantial pressure this past week. The market is in a liquidation phase as speculators have been caught long in the soybean complex as well as in corn. This is a classic washout market and is now reaching the stage of substantially oversold. December soybean meal futures may not find any support until it gets to the gap left at $296 per ton.

The fundamentals worldwide continue to be weak. The only strength is coming from the soybean oil which has helped temper some of the decline, but soyoil fell back this week. Long-term demand of soybean meal has been hurt as the reduced hog herd in China is not going to bounce back quickly.

As outlined on page one, however, the soybean crop is substantially behind and yields cannot be expected to be much better than double-crop soybeans. This will likely lead to a V bottom in the soybean meal, which could happen within the next 10 days. For buyers, this will be a great opportunity. We have essentially nothing covered at this point in time, and are looking for an opportunity to get long futures and/or cash contracts. Be ready.

Natural Gas: Prices have started to stabilize and would appear to be making a bottom. As pointed out last week, nearby futures are approaching the low of $2.15 set in June. Temperatures are now starting to cool off and will help, along with a cooler forecast, to support this market.

The other supporting factor will be the demand for natural and bottle gas for drying corn this fall. Almost everyone is expecting a wet harvest and the need for natural gas and bottle gas will be strong.

COMMENTARY

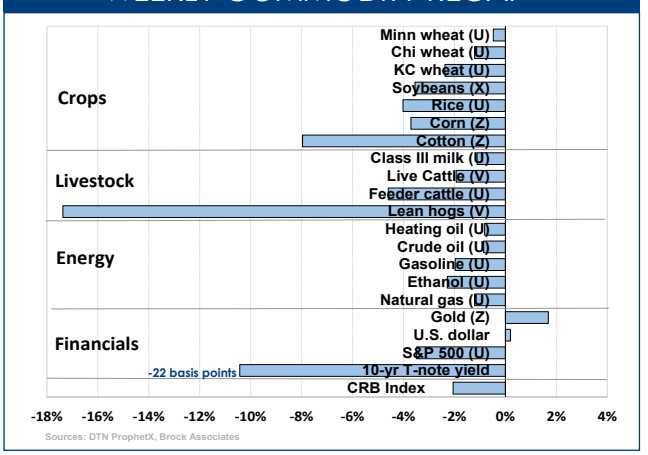
Equities and commodities tanked after a one-two punch sent investors racing for the exits. The first punch came after the Federal Reserve cut rates for the first time in over 10 years. The ¼ point cut was fully expected, but Chairman Powell's guidance left market participants feeling underwhelmed about the prospects for a series of additional rate cuts.

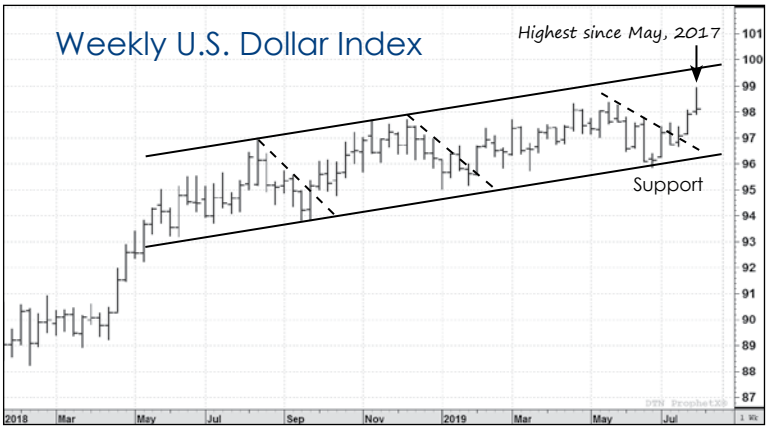
The knock-down punch came a day after U.S./China trade talks ended in Shanghai with no evidence of progress. Even though negotiators were planning on resuming high-level talks in Washington again in September, President Trump escalated the trade war with the imposition of new 10% tariffs on the remaining $300 billion of Chinese imports that don't already have a 25% tariff. The new 10% tariffs are set to go into effect on September 1, and there is already speculation that they too could be increased to 25%. Investors see slower growth, or even outright economic contraction ahead.

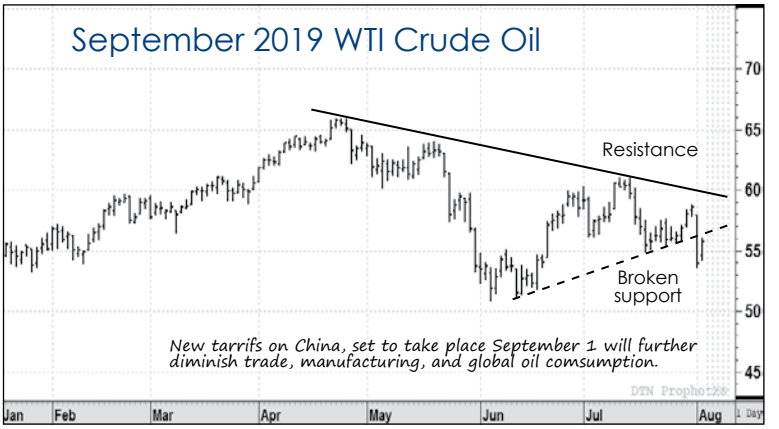
President Trump may get his wish for lower U.S. interest rates, but reducing global trade through the blunt instrument of tariffs, and disrupting just-in-time global supply chains also threatens to crash the real economy; not just in the U.S., but also in Europe, and Asia. All three regions are already struggling to maintain an even keel. One example is that the manufacturing sector is rolling over. The ISM manufacturing index in the U.S. fell for the 4th month to 51.2 in July, the lowest in 3 years and just barely above the 50-level, below which would mean outright contraction. It's even worse in Europe. IHS Market's Manufacturing PMI has been below 50 for 6 months, falling to 46.5 for July, which is the steepest rate of decline in over 6 years. China's Caixin Mfg. PMI has been in contraction for the past 2 months and 5 of the past 8 months.

Other financial markets also acted in concert with a deteriorating global economic outlook. Global bond markets soared (interest rates plummeted). The 10-year U.S. Treasury yield collapsed 22 basis points to a 2 ½ year low of 1.86%, and German 10-year Bonds fell to a record low, minus 0.50%. December gold rallied over $30 to new 6+ year high, perhaps pricing in renewed "money printing" ahead to combat the next recession. In all of the cross-currents, the U.S. Dollar advanced to new 2+ year highs, not because our outlook is so rosy, but because the U.S. Dollar is "the best looking horse in the glue factory". The irony is that new tariffs weaken our competitors' economies, strengthen our dollar and increase our trade deficits, the very things that Trump wants to "fix."

WEEKLY COMMODITY RECAP*







* Changes on most active contract. This page updated at 1:00 pm Friday before the market close.

THE BROCK REPORT POSITION MONITOR

THE WEEK AHEAD: Agricultural reports include Crop Progress and U.S. export data for the month of June on Monday, and the annual Land Values and Cash Rents reports on Tuesday. For the general economy, the Institue for Supply Management reports on the non-manufacturing economy Monday, and Friday's Producer Price Index will give us a look at inflationary pressures.

Bolded %'s highlight changes made this week

CORN

	18/19	19/20	20/21
Strictly Cash	100%	30%	0%
Hedgers Cash	100%	20%	0%
Hedgers F&O	0%	30%	10%

SOYBEANS

	18/19	19/20	20/21
Strictly Cash	100%	20%	0%
Hedgers Cash	100%	10%	0%
Hedgers F&O	0%	40%	0%

WHEAT

	18/19	19/20	20/21
Strictly Cash	100%	60%	0%
Hedgers Cash	100%	60%	0%
Hedgers F&O	0%	0%	0%

RICE

	18/19	19/20	20/21
Strictly Cash	100%	**40%**	0%
Hedgers Cash	100%	**40%**	0%
Hedgers F&O	0%	0%	0%

COTTON

	18/19	19/20	20/21
Strictly Cash	100%	30%	0%
Hedgers Cash	100%	20%	0%
Hedgers F&O	0%	0%	0%

LIVESTOCK

HOGS	19-III	19-IV	20-I	20-II
Futures	0%	0%	0%	0%
Options	0%	0%	0%	0%

CATTLE	19-III	19-IV	20-I	20-II
Futures	0%	**50%**	0%	0%
Options	0%	0%	0%	0%

FEEDERS	19-III	19-IV	20-I	20-II
Futures	0%	**25%**	0%	0%
Options	0%	0%	0%	0%

MILK	Aug	Sep	Oct	Nov
Cash	0%	0%	0%	0%
Futures	0%	0%	0%	0%

FEED PURCHASES

CORN	19-III	19-IV	20-I
Cash	0%	0%	0%
Futures/Options	0%	0%	0%

SOYBEAN MEAL	19-III	19-IV	20-I
Cash	0%	0%	0%
Futures/Options	0%	0%	0%

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