



SEPT 2020 HEMP FORECAST

The Hemp Forecast is provided to subscribers of the Jacobsen on a monthly basis. This Sept 2020 issue is being made public to the wider hemp community for free due to the current pandemic.

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COMMENTARY

Hemp markets continue on in the looming shadow of regulatory oversight, with no clear policy forecast for the future. Recent meetings with stakeholders and the FDA's CBD working group signal intent by the agency to move swiftly on enforcement policies that many hope are embedded in the rules the agency submitted to the White House OMB in July. The fact that stakeholder meetings occurred in that very same month is promising.

In March, the agency reported the following to congress:

"FDA is currently evaluating issuance of a risk-based enforcement policy that would provide greater transparency and clarity regarding factors FDA intends to take into account in prioritizing enforcement decisions," the agency told lawmakers. "Any enforcement policy would need to balance the goals of protecting the public and providing more clarity to industry and the public regarding FDA's enforcement priorities while FDA takes potential steps to establish a clear regulatory pathway."

Nobody knows what the policy addresses specifically, but some general regulatory clarity that at the very least holds the industry to existing standards is expected. It is also desired. Many operators in the CBD or broader cannabinoid space utilize cGMP practices that are required of all manufacturers of dietary supplements, consistent with current FDA policy. This may increase the risk for manufacturers not using independently verified cGMP practices, which we have commented on routinely over the last year.

We do expect some clarity on the issue of enforcement, evidenced by their March report to congress. An agency position on enforcement discretion could provide the confidence larger companies need to enter CBD markets, as would some protection from frivolous litigation. Many large companies are purportedly eager to jump into CBD markets once they have some assurances. One issue that will likely be addressed is daily serving size for CBD, after the FDA routinely inquired about this

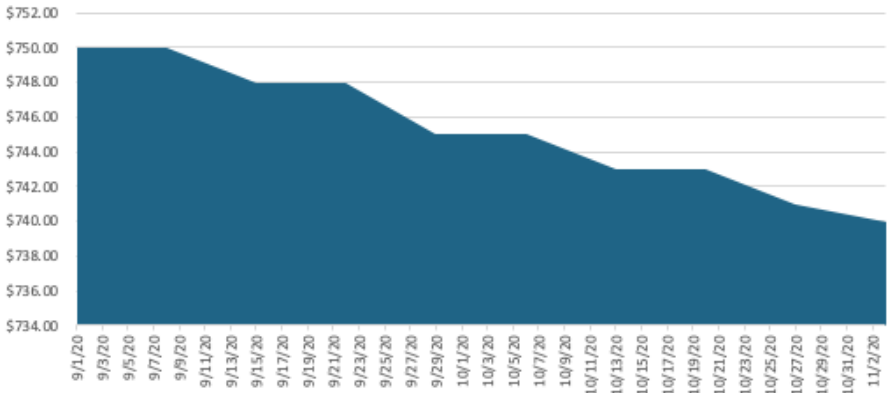
while gathering input. 70mg/day is used in other countries, and an official position by the agency would provide an anchor for product development.

The agency is also soliciting contractors to aid in testing thousands of CBD products:

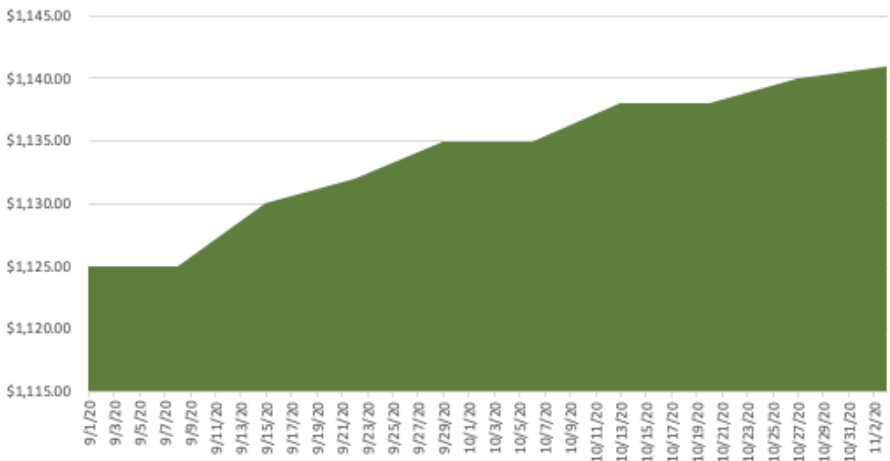
The Food Drug Administration is seeking a Contractor who shall provide support to the FDA by collecting samples and assessing the quantities of CBD and related cannabinoids, as well as potential associated contaminants such as toxic elements, pesticides, industrial chemicals, processing solvents and microbial contaminants, in foods and cosmetics through surveys of these commodities. The purpose of these studies will be to develop a better understanding of the quantities of CBD and associated cannabinoids and their distribution.

The other major policy development for hemp is the issuance of the DEA's Interim Final Rule (IFR). This has heightened the collective anxiety of the extraction segment, as the agency has designated work in progress hemp extracts (WIPHE) that exceed the .3% THC level as Schedule 1 substances. We believe that this may impact derivatives markets and perhaps add some value to NDT Broad Spectrum extract, or at least help to curtail further price erosion. This may also contribute to further price weakening for full spectrum products that now add considerable risk to anyone long in these hot extracts.

Full Spectrum Distillate Forecast

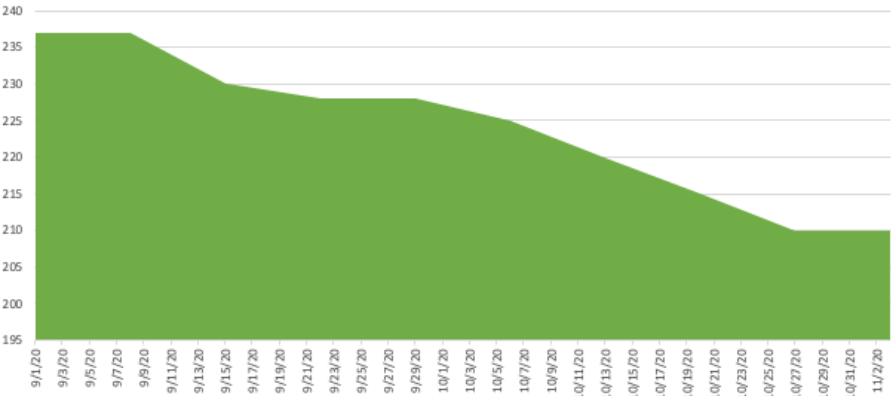


NDT Broad Spectrum Distillate Forecast



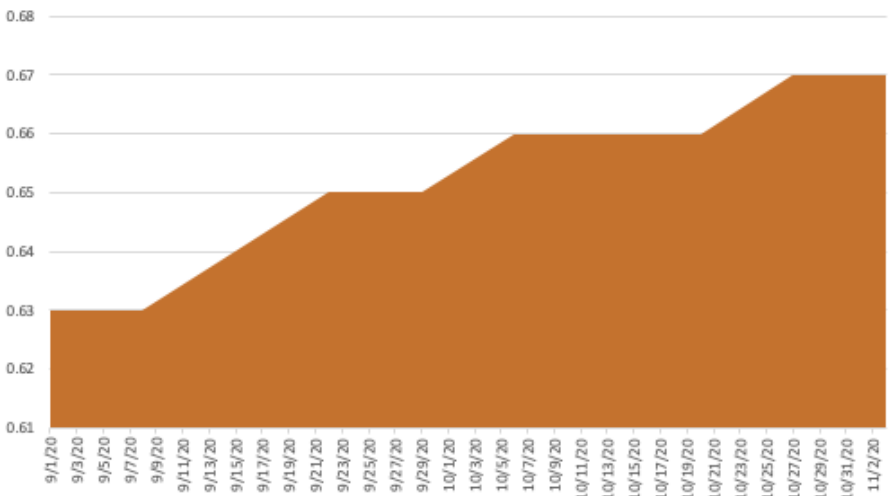
Harvest is underway in parts of the US, though some areas do not have a traditional growing season, like South Florida or California's Imperial Valley. There is also considerable acreage under glass or indoors. Flower is the first to come off in many fields, and some crops will be harvested with this as the primary objective. High grading a hemp stand prior to crop harvest allows operators to give flower drying their undivided attention, as well as all of their drying space. With all of the quality material expected in the 2020 harvest, flower pricing is projected to sag over the forecast period.

Hemp Flower - Midpoint Pricing \$/lb



All pricing listed in this forecast is midpoint pricing. Trades above and below these midpoints are routine. For instance, midpoint biomass pricing today for all reporting regions is .63 cents/ %CBD lb. Trades between .41 and .85 cents are commonplace. The [price guide](#) in The Jacobsen’s member area is a helpful complement to this forecast. We anticipate some improved pricing on new crop biomass, but do not expect significant volume. Vast derivatives inventory make crude

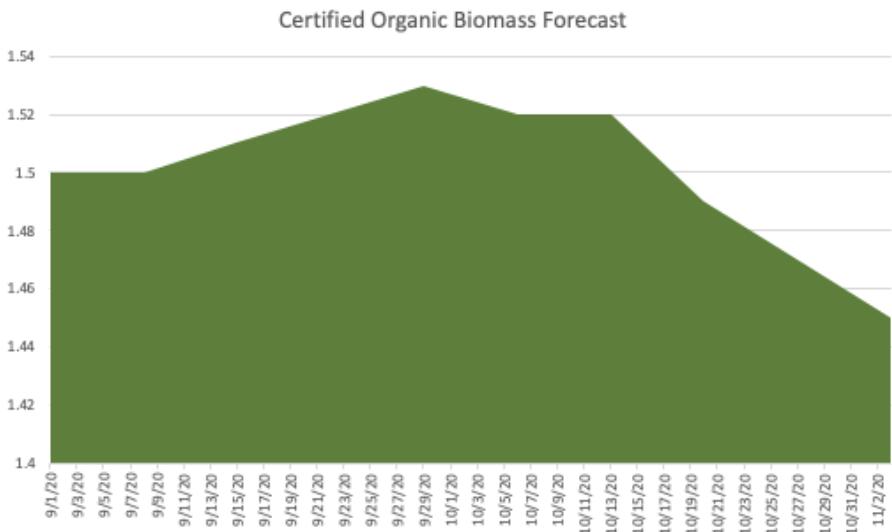
Biomass Price Forecast (averaged for all regions)



extract a much better value than biomass for extractors with THC remediation capacity. This inventory will impact pricing for the foreseeable future. Any moves to liquidate these inventories – like the GenCanna inventory held by MGG Investment Group – will have a dramatic impact on markets.

Certified Organic biomass may show some strengthening in the short term as extractors take advantage of new crop organic material. The bulk of this organic biomass will be harvested over the course of the forecast period, and plentiful supply by October will pressure the pricing floor for certified organic biomass.

The fundamental supply and demand picture has not changed regardless of acreage posted for 2020. We’ve routinely commented that much of the biomass produced will likely not find a market, and from a supply perspective, market connections and geography are critical factors. Producers will look to tolling to convert biomass to shelf stable extracts, but this will only augment the current glut of extracts.



Lot size will prevent some of this product from trading, as any scaled manufacturing will need larger, consistent lots.

The nation's weather has been good overall in 2020, but drought in the Southwest has impacted that crop and reduced yields in Colorado. Oregon's crop is excellent this year, and the state has recently revised their acreage for 2020 to 25,273. This is a sharp decline from 2019 permitted acreage but improved infrastructure and farming experience will facilitate more material finding its way to market there. Oregon is in a good position this year with their flower crop. Flower markets will continue to expand despite push back from states in the form of bans. The state has had ideal weather for flower production, but later crops may have to contend with more rainfall and potential mold issues. Autoflower growers will have sidestepped this, as many in Southern Oregon have already done. Many of them have harvested or will in the near term. It can take several weeks for flower to hit the market post-harvest.

Weather has had a serious impact on Southern Louisiana producers after Hurricane Laura pummeled the state, on the heels of another tropical storm bringing heavy rainfall to the Gulf Coast. Drought continues to rage in the Southwest and is now stretching out across the Upper Midwest all the way into New England. The Southeast is likely to see above average rainfall over the next 30 days, a repeat of what the region has recently experienced, with heavy rainfall locally. Storm season is far from over as we move into the traditionally most active period of the year. The Gulf Coast has seen the brunt of this year's storms, but all eyes on the Atlantic Coast are also watching any disturbances in the far-eastern tropics. Cooler weather felt today in the Northern Plains will be felt by most of us in between the Rocky and Appalachian Mountains over the coming weeks.

Distribution of planted hemp acreage per the FSA:

Planted Acres



FSA shows less than 46,000 acres of hemp accounted for to date. These numbers are incomplete, having been delayed by the pandemic. Confusion over reporting requirements may preclude an accurate accounting of 2020 planted acreage.

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ABOUT THE AUTHOR



Chase Hubbard earned his degree in Sustainable Agriculture from Warren Wilson College in Asheville, NC and later completed NC State's Agricultural Leadership Development Program. His career in farm management — including a broad range of crops, livestock, and markets – received widespread local and national recognition for progressive agricultural practices and for mentoring young farmers. Chase's unique perspectives in agriculture result from deep sector knowledge across many commodities and geography, ranging from Western North Carolina to Latin America and Southeast Asia. In addition to farming full-time, he served as an elected Soil and Water Supervisor, and in appointed leadership roles for local/state agricultural committees and commodity groups. Chase is now covering the emerging hemp industry for The Jacobsen.