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Dear Client: Washington, April 9, 2021

Some believe farmers sandbagged USDA on acreage info… the March 31 Prospective Plantings Report showed lower planted acreage intentions as of early March for corn and soybeans than many anticipated and what's needed. USDA's June 30 Acreage Report could (should) show higher plantings.

USDA's Prospective Plantings
• **March intentions for corn** are up only 325,000 acres from last year and nearly 2.1 mil. acres fewer than the average pre-report estimate. • **Corn plantings** would be highest since 2016, when producers planted 94.0 mil. acres to corn but far less than 2012 and 2013, the two biggest corn acreage years. • **USDA's intentions for soybeans** are up 4.5 mil. acres from last year but 2.4 mil. acres lower than traders anticipated. • **Soybean plantings** would be the highest since 89.2 mil. acres in 2018 and the third highest on record. • **No margin for error:** Using USDA's March planting intentions and trendline yields, *Pro Farmer's* old-crop ending stocks forecasts and USDA's Outlook Forum usage projections, new-crop ending stocks would tighten to around 50 mil. bu. for soybeans and hold at a tight 1.2 bil. bu. for corn. More acres and/or less use are needed.
Source: *Ag Letter* editors

USDA SURVEYS

Shocking March acreage intentions. USDA estimated producers intend to plant a combined 178.7 mil. acres to corn and soybeans. While that would be up 4.8 mil. acres from last year, it would be 1.6 mil. acres less than the record of 180.3 mil. acres from 2017 and 3.6 mil. acres less than *Pro Farmer's* survey indicated. Given strong new-crop prices, *Pro Farmer* anticipates corn and soybean acres will increase from March intentions, especially if spring weather is favorable.

Growing number of farmers distrust USDA's crop and demand estimates/forecasts. Says one industry contact: "There's a narrative right now for farmers wanting to prove USDA wrong… it's growing and that's not good in my opinion."

Some say farmer apathy is reflected by a declining response rate for USDA's acreage and crop reports. While USDA does not report response rates… most think it should. We have learned the Prospective Pantings survey had a 58.8% response rate… down from 59.2% last year and well below a goal of 80.0%.

More responses are always better than less, but it's not much different than what was seen the last couple years. The biggest question is always whether or not those that did respond are distinctly different than those that didn't. USDA's National Agriculture Statistics Service makes comparisons between last year and last quarter for those that responded… to get a measure of change.

Sampling has to cover all crops included… not just corn & soybeans… so that has some influence on the sample sizes across states.

USDA is seeing response rates differ depending on states. The consistency in the I-states… Iowa, Ill., Ind.… and some others allow USDA to use fewer samples than in states with more variability. More samples are being taken in some other states… notably the Dakotas and Minnesota… because of past year's inconsistent survey results and final survey estimates.

Farmers and others think the private sector is now ahead of USDA regarding report accuracy… both on acreage and crop estimates. Private tech firms are using satellite remote sensing and other tools like drones to assess crops.

This is leading to calls for USDA to increase the use of this technology so no one gets a leg-up on critical information.

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Subscription inquiries: 888-752-2047 or AgricultureLetter@farmjournal.com
Editorial information: Tel., 800-772-0023; Fax, 319-277-7982; E-mail: aglettereditors@farmjournal.com; or website, AgricultureLetter.com

WHIP+

USDA sets WHIP+ closeout deadline. By April 16, USDA will finalize all Wildfire and Hurricane Indemnity Program-Plus (WHIP+) applications and approve payments. Sources say second-half 2019-crop WHIP+ payments will be made, but additional funding for the program may be needed and payout timelines will likely vary. USDA says it must see the size of Quality Loss Adjustment costs before committing to full second-half payments. Plus, there are still some first-half WHIP+ payments that have not been paid.

What about WHIP+ for 2020 and potentially 2021 crops? Farm-state lawmakers from both parties want WHIP+ for 2020 crops that faced weather-related disasters like the derecho in Iowa, wind damage in Illinois. Look for this issue to surface again on a must-pass spending measure later this Congress. Lawmakers may want to see how this crop season unfolds before pushing for more WHIP+ funding.

VILSACK

Vilsack is a far different ag secretary than he was under the Obama administration. Tom Vilsack tweeted: "Nearly 90% American farmers do not make the majority of their money from farming. Now is the time to transform our food & agriculture system to create a fairer, more transparent food system, support value-added opportunities, & build new markets & streams of income for producers." A look at the numbers, however, shows farmers who produce the most significant production earn all or most of their income from farming and ranching operations.

Vilsack is focusing on racial relations, emphasizing "equity" rather than inequality in his push for direct payments to selected minority farmers. Vilsack has been calling himself an "older white guy" and adding, "I haven't had the experience of being Black." But he said an equity commission in the department would re-evaluate policies to ensure racial fairness.

So far, he is clearly favoring small- to medium-sized producers in his return.

FOOD AID

Biden administration is pushing food relief. With more than 1 in 10 households reporting they lack enough to eat, the Biden administration is accelerating a vast campaign of hunger relief, the *New York Times* reports. "The campaign has increased food stamps by more than $1 bil. a month, provided needy children a dollar a day for snacks, expanded a produce allowance for pregnant women and children and authorized the largest children's summer feeding program in history," the article details. "We haven't seen an expansion of food assistance of this magnitude since the founding of the modern food stamp program in 1977," said James P. Ziliak, an economist at the University of Kentucky who studies nutrition programs. "It's a profound change."

Low-income Americans spent $8.4 bil. a month on food using SNAP and Electronic Benefit Transfer (EBT) during the pandemic last year, according to a new study by USDA's Economic Research Service. That was an 86% increase over a comparable six-month period in 2019.

BRAZIL

Dollars or deforestation: Brazil would be able to reduce deforestation in the Amazon by as much as 40% if it received $1 billion in aid from other countries, including the United States, said the nation's environment minister.

SUEZ CANAL

Suez Canal authorities have cleared the traffic backlog that resulted when a giant container ship got stuck for six days and blocked the important shipping lane, disrupting global trade. More than 400 vessels that were waiting at the northern and southern ends of the 120-mile waterway on March 23 when the Ever Given ran aground have since passed through the canal, authorities said. New ships were entering the waterway, returning movement to normal, they said, marking the end of a 12-day saga that upended the maritime shipping industry and strained already struggling global supply lines. Reinsurers are taking a financial hit from covering losses due to cargo delays.

The latest shipping glitch raises questions about how much bigger ships can get and still safely transit through crucial maritime bottlenecks like the Suez Canal.

WHEAT RATINGS

USDA's initial winter wheat crop rating came in as expected with 53% of the crop rated "good" to "excellent," which was a seven-point improvement vs. the last update on Nov. 30. That's down nine percentage points from year-ago, however. USDA rates 54% of top-producing Kansas' winter wheat crop "good" to "excellent"... that's a dramatic improvement from the 33% it put in the top two categories last fall.

Recent moisture benefitted winter wheat in the Central Plains and helped the crop bounce back after a blast of arctic air during February. But selling has been limited by recognition the 30- and 90-day forecasts are warm and dry for the Central and Southern Plains, with drought still entrenched in Texas, Colorado and western Kansas.

Planting of spring crops is getting started, with 2% of intended corn acres seeded as of April 4. Spring wheat planting was 3% complete and 6% of the cotton crop had been seeded. Progress for all three crops is close to their five-year averages.

MARKETS

Corn: USDA's Prospective Plantings Report came in under expectations and shy of what's needed given tight corn supplies. That has sparked an acreage-buying price rally and centers attention on spring planting conditions. USDA's next update on acres will come June 30. Meanwhile, ethanol demand continues its recovery from pandemic lows.

Soybeans: Ending stocks of soybeans are even tighter, so planted acreage is a major focus. Key will be weather ahead, with markets watching to see if corn acres get put in as expected. If there are corn planting issues, then soybeans could see an acreage bump. Soybeans may also gain ground from other crops outside the heart of the Corn Belt.

Wheat: U.S. acreage situation was a surprise for markets, both for spring wheat and winter wheat. Rain will be important for the dry Northern Plains where the bulk of spring wheat is grown. Any planting delays could shift additional acres to soybeans.

Rice: Planting intentions data provided little for either market bulls or bears. That keeps demand news as a market factor, with low-priced Indian rice capturing demand on the world market. U.S. rice stocks remain more than adequate for long grain rice, but medium and short grain supplies are not as plentiful.

Cotton: Planting is underway, with long-lasting and severe dryness in the production hub of West Texas a source of concern. Demand has remained solid for old-crop supplies, with prices remaining well above loan rates. China remains a key on the export demand side, especially as it deals with companies reducing their purchases of Chinese cotton/textiles from Xinjiang over alleged human rights abuses.

Dairy: Cheese inventories remain ample, and that is pressuring prices. But February fluid milk production was low as frigid weather hurt production in a number of areas. Production declined 1.5% in February, marking the first monthly decline since May 2020.

Hogs/pork: April futures have maintained a premium to cash as expiration nears, with the market in the midst of a historic rally. Impressive domestic and export demand fueled the rally, with a resurgence of African swine fever keeping China as a major buyer. U.S. hog supplies also contracted for the first time since 2014, according to the latest Quarterly Hogs & Pigs Report.

Cattle/beef: Carcass weights have resumed their above-year-ago trend as impacts of a frigid February are dissipating. Choice cutouts hit their highest mark since June 2020 as March wound down. Feeder cattle futures reacted to the rise in corn prices, moving down as feed cost increases are coming.

Broilers: Chicken sandwich "wars" continue to keep support under breast prices. The U.S. February broiler egg layer flock was 63.4 mil. head, the largest on record. However, it is not clear whether the bigger flock will translate into more supplies ahead.

Transportation: Winter impacts have cleared from the system and demand for U.S. corn for export remains strong. Suez Canal situation has been resolved, but there may still be some impacts in other areas of the world from the backup in the key water route.

INFRA-STRUCTURE

Politics aside, infrastructure reform is needed, say lawmakers and experts we've talked with. Consider these facts:

• 850 water main breaks occur daily in North America. And the total cost to repair them runs about $3 billion.

• EPA estimates that the vast majority of the country's sewer pipes are well past their intended life cycle. In fact, the American Society of Civil Engineers forecasts the U.S. needs to invest $3.6 tril. to get water and sewer pipes to acceptable levels.

• Electric utilities are spending upwards of $100 bil. every year to update our aging power grid.

• Transportation Research Board (TRB) estimates U.S. interstate bridges average 45 years of wear and tear, with 27% needing repair or replacement. Only 56% are deemed in "fair" condition.

• TRB recommends that funding for interstate repair and replacement needs to increase two-and-a-half times from its 2018 level of $23 billion. And this needs to be done annually… for the next 20 years.

A look at some of the elements of Joe Biden's $2.25-tril. infrastructure plan show how it is designed to help more remote reaches of the U.S., especially in farm states. Up front is the $100 billion broadband plan, which the White House says aims to "provide 100% broadband coverage in rural America." Several other provisions… including cleaning up abandoned mines… are geared toward winning over rural state lawmakers (think Montana and W.Va.). Other funding involves bridges, rural partnership programs and rural housing under the "social infrastructure" provisions of Biden's plan.

RAILWAY MERGER

Railway merger sought. Canadian Pacific (CP) and Kansas City Southern (KCS) railways announced on March 21 that CP agreed to acquire KCS in a merger valued at $25 billion. The merger is subject to approval from the U.S. Surface Transportation Board (STB), which by law must issue a decision within 16 months. CP and KCS have requested a shorter review period of 10 months. The merger would leave six Class 1 railroads, with CP in control of a rail network stretching from Canada to Mexico. It would be the first Class I merger considered since 2016, when a proposed joining of CP and Norfolk Southern Corp. was withdrawn amid concern from other railroads and shippers.

If CP and KCS move forward with the merger, it will be the first to be reviewed under STB's revised merger guidelines adopted in 2001. The National Grain and Feed Association said it will evaluate the proposed merger's potential impact on rail freight rates and service before weighing in with the STB.

FOOD DOLLAR

Farm share of each U.S. food dollar increased in 2019 after seven years of decline. On average, U.S. farmers received 14.3 cents for farm commodity sales from each dollar spent on domestically produced food in 2019, up from a newly revised estimate of 14.2 cents in 2018. Average prices received by U.S. farmers… as measured by the Producer Price Index for farm products… have been relatively stable for the last three years, following sharp declines in 2015 and 2016. The marketing share covers the costs of getting domestically produced food from farms to points of purchase, including costs related to packaging, transporting, processing and selling to consumers at grocery stores and restaurants.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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