

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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A bullish U.S. ag sector...

Corn and soybeans are among the hot markets.

AG
OUTLOOK

Some say robust outlook could last into next year, while others note technical signs of at least a near-term top. Tight carryovers are the key.

Impacts: U.S. farm income will be higher than USDA and most ag industry analysts predicted earlier. But without the multibillion-dollar aid payments, it's unclear if the net income tally will rival 2020.

Ag expenses are rising, too... feed, fertilizer, equipment, fuel, land, etc. But at least livestock, dairy and poultry producers had a chance to cover feed needs before corn and meal prices surged. Some say more accurate USDA forecasts would have helped them do so.

All this will cut into the ag sector's bottom line.

China and Brazil are behind the rallies.

China's insatiable appetite for world corn continues. Between May 7 and May 19, private exporters announced 9.52 mil. metric tons (MMT) in U.S. new-crop corn sales to China and Chinese trade data shows the country brought in 8.58 MMT of the grain from all destinations for the first four months of 2021.

A smaller Brazilian safrinha (second) corn crop is now evident to early naysayers. USDA dropped its estimate 7 MMT in the most recent WASDE report, which signals to many the final crop will be even lower. This helped fuel the market's rally. Rain is forecast later this month for key safrinha areas.

Some countries are taking steps to halt rising prices for food, with the Philippines and Argentina joining Russia.

U.S. food prices are also on the rise, contributing to inflation that Federal Reserve and White House officials keep saying is "transitory."

Traders' focus turns to U.S. corn and soybean crop prospects, with both crops planted rapidly with mid-May rain and warmer temperatures conducive for early development.

Some industry analysts are forecasting larger corn plantings than USDA. One of them... IHS Markit... boosted its corn plantings 5.7 mil. acres from USDA's initial projections. Others, including *Pro Farmer*, are up 2 mil. to 3 mil. acres.

Since 2004, the largest increase from the planting intention's tally to the final corn acreage number was 3 mil. acres in 2007.

Seasoned corn and soybean growers are selling remaining old-crop supplies and locking in *some* new-crop prices. As the saying goes... you can't go bankrupt making money.

Highlights from WASDE Report

- Corn carryover will be tight at an estimated 1.257 bil. bu. for 2020-21 and remain snug at 1.507 bil. bu. for 2021-22.
- Ditto for soybeans, with old-crop stocks holding at 120 mil. bu. & new-crop forecast at 140 mil. bushels.
- Old- and new-crop wheat carryover topped expectations at 872 mil. bu. and 774 mil. bu., respectively. USDA surprised with a cut to its 2020-21 export forecast.
- Cotton carryover of 3.3 mil. bales for 2020-21 and 3.1 mil. bales for 2021-22 was fully bullish, with USDA still cutting the 2020 crop.
- Initial U.S. winter wheat crop estimate of 1.283 bil. bu. is up 112 mil. bu. from last year.
- USDA stair-stepped its 2020-21 Chinese corn import forecast 2 MMT higher to 26 MMT. Its 2021-22 corn import forecast for China was a rather aggressive 26 MMT.
- Brazil's 2020-21 corn crop peg drops to 102 MMT; the 2021-22 crop projected to climb to 118 MMT.
- Brazil's soybean crop expected to climb from 136 MMT in 2020-21 to 144 MMT in 2021-22.

Source: USDA's World Ag Outlook Board

FOOD DOLLAR

A look at the U.S. food dollar.

In 2019, restaurants and other eating places claimed 38.5 cents of the average U.S. food dollar, continuing a steady climb since 2009, when the food services industry's share was 29.6 cents.

Farm production was the only other industry with a rising food dollar share in 2019, up slightly to 7.6 cents from its 25-year low of 7.4 cents in 2018. The proportion of the food dollar was the smallest since 1993 for several industries in 2019: agribusiness... such as fertilizer and farm services... food processing, packaging, wholesale trade and retail trade.

Caution: The 2019 food dollar reflects conditions *before* the Covid-19 pandemic.

Background: ERS's annual Food Dollar Series provides insight into the industries that make up the U.S. food system and their contributions to total U.S. spending on domestically produced food. ERS uses input/output analysis to calculate the cost contributions from 12 industry groups in the food supply chain. Annual shifts in the food dollar shares between industry groups occur for a variety of reasons, including changes in the mix of foods consumers buy, costs of materials, ingredients, and other inputs, as well as changes in the balance of food at home and away from home.

AG EQUIPMENT

Farm equipment replacement parts can be costly, and the downtime can be extensive if the part is difficult to source... that's been the case lately with pandemic-related logistical problems. Having a 3D printer on the farm or at your equipment dealer can help in producing an inventory of spare parts that are typically needed... that is, as long as a material that's fit for the purpose is used. 3D printing uses an additive manufacturing process in which a digital file directs the printer to lay down successive layers of liquid, powder, paper or even steel to make a three-dimensional, solid object.

Technology is giving ag equipment manufacturers new and faster ways to improve their existing products and turn out parts faster. "It's extremely valuable to us," says Rye DeGarmo, director of engineering, global seeding and tillage for AGCO. The cost of 3D printers has fallen dramatically, making them an even more accessible tool for AGCO to use for rapid prototyping in the early design phase of new and redesigned products. "It really gives us the opportunity to move more quickly," DeGarmo says. "We can create a piece and refine it within days, instead of waiting six to 10 weeks and spending \$30,000 in tooling to put it into full production."

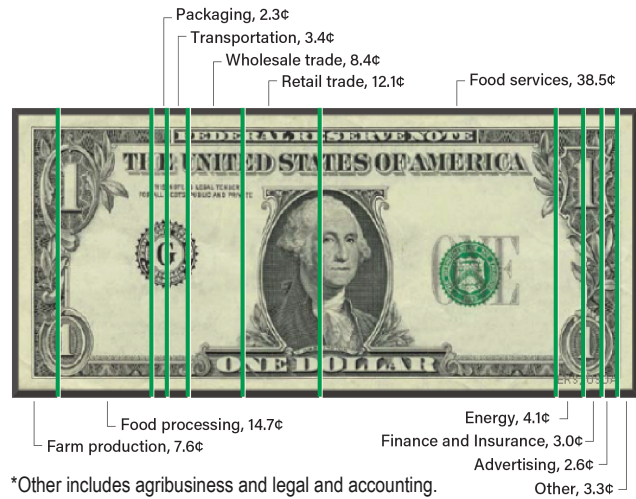
But there are always cautions about a new industry, so do your homework.

BIG RANCH LISTING

Ojai ranch in California listed for \$100 million. The 3,600-acre site with 12 structures is Ventura County's priciest listing by far. The seller is businessman Richard Gilleland, who formed the prize property by combining 63 parcels.

The working cattle and horse ranch has grassy pastures and 12 separate structures, including a main house that spans more than 13,000 square feet. For storage, there's a hay barn, horse barn, equipment barn, equipment garage and shed that combine for more than 20,000 square feet of space. More than 35 miles of trails meander through the grounds, stopping by a shooting range, stone patio, hot tub, cantina, tennis court and lake with a dock for fishing. Jordan Cohen of RE/MAX One holds the listing.

2019 Nominal Food Dollar by Industry Group



Source: USDA, ERS, Food Dollar Series data product

CHILD TAX CREDIT

Biden administration will send its first child tax credit boost payments on July 15.

About 39 million U.S. households will begin receiving monthly child tax-credit payments in mid-July, most of them automatically, as part of the Covid recovery bill cleared in March, officials said. The monthly payments of as much as \$300 for each child under age 6 and as high as \$250 per month for children age 6 to 17 will continue through year-end.

The monthly benefits will be deposited directly in most families' bank accounts on the 15th of every month... or the closest day to that date if the 15th falls on a holiday or weekend. No action is required to trigger the payments.

Households representing more than 65 mil. children... 88% of all U.S. kids nation-wide... will begin receiving the benefit through direct deposit, paper checks, or debit cards.

High-income parents will receive a smaller benefit or none at all, depending on how much they make.

MARKETS

Corn: Planting remains well ahead of average, though a pause in activity is likely with precip arriving in some areas of the Corn Belt the past week. Demand also remains very strong, with nine consecutive days of large, new-crop corn export sales to China recorded as of May 19. Export inspections of old-crop corn are strong and should keep a floor under prices. But fund money flow remains a key factor in futures trade.

Soybeans: Planting remains well ahead of the average pace as of mid-May. Rains in the Midwest are not expected to present any major planting issues and should boost early crop development. The crush dropoff in April was notable and could suggest USDA's 2020-21 crush may be overstated. Unlike corn, soybeans are not seeing an appreciable pickup in business as exports are slowing seasonally. But tight stocks mean any crop problems could spark price volatility.

Wheat: Rains in HRW wheat areas and from the U.S. Northern Plains into Canada have eased some concerns over wheat production potential. Spring wheat planting has also been well ahead of schedule so rains are welcome in the region. But the demand side needs to pick up given easing supply concerns.

Rice: Liquidation across commodity markets has been seen in the rice market, moving prices to about midrange relative to where values stood in April. Rice lacks supportive fundamentals, and supplies are expected to remain ample.

Cotton: Improved moisture conditions in Texas and pressure from other markets have weighed on cotton futures, despite strong demand and a higher old-crop export forecast from USDA. Funds have been in a selling mood relative to their commodity positions and cotton has not been immune. Even solid Retail Sales activity failed to stem selling pressure.

Dairy: Exports of dairy products were a bright spot for March as nonfat dry milk exports hit a new record and were up more than 37% from last year. Dry whey and lactose exports were strong. The export share of milk production reached 18.2% in March.

Hogs/pork: Packers are current on supplies, and market-ready hog numbers are likely to tighten ahead. Tight supplies are also pushing cutouts up, but there may be some topping activity as holiday buying may have run its course.

Cattle/beef: Feedlots are continuing their aggressive marketing of cattle as average slaughter weights dropped 2 lbs. the week ended May 15 to 1,368 lbs., which is 11 lbs. under year-ago levels when processing restrictions were backing up supplies. Higher feed costs are also factoring into the marketing activities.

Broilers: Prices continue to set new highs for broiler fillets, tenders, thigh fillets and wings as there are still some production restraints. Feed costs are slowing expansion.

Transportation: The Mississippi River reopened May 14 after being closed for a few days due to a structural crack on the I-40 bridge that connects Arkansas and Tennessee at Memphis. Repairs have started but it is not clear how long they will take nor whether the U.S. Coast Guard will limit river traffic during repairs.

CYBER
ATTACK

Cyber attack on Colonial Pipeline showed U.S. needs better security. President Joe Biden's \$2.25-trillion infrastructure package has some funding for this, but Republican and Democratic lawmakers say more is needed.

The immediate supply and price impacts of the gas and other fuel shutdowns are clear evidence that something needs to be done.

The ag sector needs on-time supplies of fuel.

MEAT &
CLIMATE

Kerry shies away from telling Americans to cut meat consumption. Special Presidential Climate Envoy John Kerry in an interview with the BBC dismissed the suggestion that the federal gov't will one day need to tell Americans to eat less meat to help combat climate change. "Isn't the brutal truth that at some time, you're going to have to tell Americans to eat less meat?" journalist Andrew Marre asked Kerry, citing a recent increase in agricultural emissions. "Not necessarily, because there's a lot of research being done now that will change both the way meat is produced, cattle are herded and fed," he said. "There's research being done that actually reduces the amount of methane."

Leaning hard into tech: Kerry said that the Biden administration's aggressive emissions reductions targets rely substantially on technologies that haven't been invented yet. "I am told by scientists... not by anybody in politics, but by scientists... that 50% of the reductions we have to make to get to net zero by 2050 or 2045 as soon as we can, 50% of those reductions are going to come from technology that we don't yet have," he said. "That's just a reality." Climate activists were unimpressed with Kerry's assessment.

USDA Sec. Tom Vilsack shot down previous reports that the Biden climate change strategy would include recommendations to limit meat production and consumption.

OIL
INDUSTRY

Energy companies face calls to end oil investments. The International Energy Agency (IEA) said the world can only hit its net-zero emissions target by 2050 by stopping all new oil and gas projects, rapidly accelerating wind and solar capacity and halting sales of all combustion-engine cars by 2035, with the role of electric vehicles expanding from 5% of the global fleet today to 60% by 2030. Oil demand would plunge to 24 million barrels a day in 2050, and never again exceed the level of almost 100 million barrels seen two years ago. If the world were to follow the IEA report's trajectory, oil prices would dwindle to just \$25 a barrel by mid-century from almost \$70 now.

IEA said hitting net-zero emissions is crucial in limiting the rise in global temperatures to 1.5 degrees Celsius above preindustrial levels... a goal laid out in the 2015 Paris climate agreement. The U.S. rejoined that agreement earlier this year and is proposing to halve its emissions by the end of the decade. Other signatories such as the European Union and the U.K. have said they plan to achieve carbon neutrality by 2050.

BAYER

Begemann retires from Bayer, Santos tapped as new COO. After 38 years with Bayer and the Monsanto companies, Brett Begemann announced he will retire as chief operating officer (COO). Rodrigo Santos has been tapped to succeed Begemann, effective June 8. Santos currently serves as the Head of Crop Science Commercial Operations for Latin America. The Brazilian national has spent over 23 years with the company and has led the Latin American Crop Science business for Bayer since the integration of Monsanto and Bayer in 2018. Santos previously worked in sales, marketing, strategy and business development jobs, including a leadership role in Eastern Europe. Bayer also announced Mauricio Rodrigues, currently head of finance for crop science in Latin America, will replace Santos as the new head of crop sciences commercial operations for Latin America. He has been with the company since 1999.

Best regards,

The Ag Letter Editors
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