

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Volatility in the ag sector... causes include weather, cyberattacks, geopolitics, trade policy and money flow.

VOLATILITY

Weather-fueled price rallies are already here...

A frost/freeze over Memorial Day weekend hit a larger area than expected... including northern and eastern Iowa. That's expected to be followed by several weeks of hot, dry weather.

Warm, dry conditions are expected near-term in the Midwest and Northern Plains... and some of these areas are already dry. Consequently, wheat, corn and soybean prices have rebounded sharply.

Brazil's safrinha corn crop continues to shrink due to drought.

Low U.S. corn and, especially, soybean stocks compared against demand will make volatility a lingering issue.

Cybersecurity attack on meat supplier JBS's IT systems in U.S. and Australia rattled the market. JBS, the world's largest meat supplier, was the target of an "organized cybersecurity attack." The company, whose U.S. operations are headquartered in Greeley, Colo., said the attack affected some of its servers supporting its North American and Australian IT systems. Its backup servers were not affected, and it is restoring its systems.

The impact on consumers is unclear but livestock markets dived when the news broke. JBS said it was "not aware of any evidence at this time that any customer, supplier or employee data has been compromised or misused as a result of the situation." The JBS incident also affected a Canadian beef plant in Brooks, Alberta.

Resolution of the incident will take time, "which may delay certain transactions with customers and suppliers," JBS said.

Not a one-off event. One ag industry official emailed: "We need to get used to this. The U.S. is far behind in our defense of cyberattacks."

China and Russia are cozying up... when the country's two leaders met March 23, Russia afterward put more troops along its border with Ukraine.

President Joe Biden will meet with Russia President Vladimir Putin June 16. China's leader, Xi Jinping, will meet with Putin before the Biden/Putin confab.

Both countries are clearly testing Biden to see what he will do.

China's Xi is becoming very aggressive, thinking the U.S. and Western nations are in descent while China is on the rise. Many think that is a mistake and Xi played his aggressiveness too soon. But that could also signal he is concerned about domestic issues.

Bottom line: Volatility the next few months or longer is now a given. Markets are reflecting that. Prudent advice: sell some old- and new-crop because, as we saw with China during the Trump presidency, geopolitical issues can thwart the best marketing plans.

Forecast FY 2021 U.S. Ag Exports (Bil.)		
	February	May
Grains/feeds	\$37.8	\$41.2
Wheat	\$6.9	\$6.9
Corn	\$14.0	\$17.2
Soybeans	\$27.4	\$28.9
Rice	\$2.0	\$2.0
Cotton	\$5.9	\$6.1
Beef/veal	\$7.4	\$7.6
Pork	\$6.8	\$7.2
Broiler meat	\$3.2	\$3.2
Fresh fruit/vegetables	\$6.9	\$6.9
Tree nuts	\$9.0	\$8.6
Dairy prods.	\$6.5	\$7.0
Hort. prods.	\$34.5	\$34.1
Total	\$157.0	\$164.0

Sources: USDA's Economic Research Service, Foreign Ag Service, and World Ag Outlook Board

PPP

Paycheck Protection Program (PPP) closes to new applications. The federal government's PPP closed to new applications May 28 as funding was on track to be exhausted. That marked the end of a \$961 billion emergency effort that helped millions of small businesses survive the pandemic but included fraud claims and criticism that it didn't reach the neediest businesses. The program had been scheduled to end on May 31, but the Small Business Administration said in a notice to lenders that "due to the high volume of originations today, the portal will be closing for new originations' that evening."

What about legislation for PPP funding changes for farmers? Aid under the program had been based off of 2019 net income, but some farm-state lawmakers are trying to reverse that rule so that they can now base their loan award off of gross income. Sens. Tammy Baldwin (D-Wis.) and Sen. John Thune (R-S.D.) continue to work on the change but the decision to close new applications is a hurdle.

PCCP

Info about USDA's Pandemic Cover Crop Program (PCCP). Agricultural producers who have coverage under most crop insurance policies are eligible for a premium benefit from USDA if they planted cover crops during this crop year. PCCP, offered by USDA's Risk Management Agency (RMA), helps farmers maintain their cover crop systems, despite the financial challenges posed by the pandemic. PCCP provides premium support to producers who insured their spring crop with most insurance policies and planted a qualifying cover crop during the 2021 crop year.

The premium support is \$5 per acre, but no more than the full premium owed.

Illinois, Indiana and Iowa have existing programs for producers to receive a premium benefit for planting cover crops. In these states, participating producers will receive an additional benefit.

All cover crops reportable to Farm Service Agency are eligible and include cereals and other grasses, legumes, brassicas and other non-legume broadleaves, as well as mixtures of two or more cover crop species planted at the same time.

WHIP+

WHIP+ decision is being finalized... finally! The applications are being processed, a White House source tells us, with an announcement on the payment percentage said to be "pending." Payments should start this month, but still unknown is what percent of second-half 2019 payments will be made. A decision memo is on USDA Secretary Tom Vilsack's desk.

WHIP+ for 2020 and perhaps 2021 crops may be included in new legislation.

IMMIGRATION

Biden has a blueprint to reform and expand legal immigration, including farm workers. The 46-page document details the Biden administration's plans to significantly expand the legal immigration system, including methodically reversing the efforts to dismantle it by former President Donald Trump.

The document offers policies to help more foreigners to move to the U.S., including highly-skilled workers, trafficking victims, the families of Americans living abroad, American Indians born in Canada, refugees, asylum-seekers and farm workers. Immigrants who apply online could pay less in fees or even secure a waiver in an attempt to "reduce barriers" to immigration. And regulations would be overhauled to "encourage full participation by immigrants in our civic life."

EQUITY PAYMENTS

Two courts blocked Small Business Administration from passing out benefits by race. Some wonder whether same will happen with the selected minority farmer payments.

Details: Two rulings last week sided with plaintiffs who sued Biden's SBA for violating equal treatment under the law. A federal judge in Texas ruled that the SBA's Restaurant Revitalization Fund was wrong to distribute \$28.6 billion in Covid-19 relief on the basis of an owner's sex and race. SBA justifies its bias as necessary to remedy past societal discrimination.

Sound familiar? That is in essence how USDA Secretary Tom Vilsack defends the at least \$4 billion initially to be paid this month to selected minority producers.

ECONOMY

OECD raises world economic outlook but warns recovery is uneven. The Paris-based group expects global output to rise 5.8% this year, a major upgrade from its December forecast for 4.2% growth. Growth of 4.4% in 2022 would bring most of the world back to pre-pandemic levels of activity, it added. “As countries transition towards better prospects, it would be dangerous to believe that governments are already doing enough to propel growth to a higher and better path,” said Laurence Boone, OECD chief economist.

In the U.S., prices are expected to keep rising this summer, pushed up by bottlenecks for materials/labor and surging consumer demand. Meanwhile, the Commerce Dept. said personal consumption expenditures... a measure of inflation used by the Federal Reserve... rose 3.6% in April. Excluding volatile food and energy prices, inflation stood at 3.1%, well above the Fed’s long-term target of 2.0%. Fed officials said earlier that the economy would be allowed to “run hot” to make sure a recovery is established, but investors worry about unexpectedly sharp rises in prices of consumer goods and some commodities.

MARKETS

Corn: Attention has quickly shifted to how the newly planted crop is coming along, with USDA initially rating more than three-quarters of the crop in “good” and “excellent” shape. Recent cold temps are a concern but not likely widespread enough to raise major issues. Old-crop focus remains on demand... from China in particular.

Soybeans: U.S. planting remains well ahead of the average pace at 84% done, with 62% of the crop emerged as of May 30. Initial condition ratings for the crop will come June 7, but with the solid reading on corn, expectations are relatively high for soybeans. As with corn, old-crop attention remains on demand... both foreign and domestic.

Wheat: Winter wheat condition ratings are ahead of year ago and recent rains and the Kansas wheat tour have bolstered production forecasts. The spring wheat crop is off to a rough start, with just 43% was rated “good” to “excellent” as of May 30. But global supplies remain hefty and U.S. wheat is not competitive in global tender activity.

Rice: The crop has been affected by spillover from activity in grain and oilseed futures. The announcement of some donation tenders with decent volumes has provided support. But overall U.S. export activity is sluggish.

Cotton: Texas remains the focus as the biggest U.S. production state. West Texas cotton areas received some good rains, but other areas of the state have dealt with too much rain and some severe weather. U.S. export figures remain supportive. The latest figures from the Commodities Futures Trading Commission Cotton OnCall report continue to signal end-users are finding good value, with U.S. prices at current levels.

Dairy: Summer production is usually met with higher consumption, but uncertainty prevails. Exports are solid and the re-opening of restaurants is helping to build more demand. But transportation issues are starting to boost costs for refrigerated units.

Hogs/pork: Supplies in cold storage fell to their lowest level for the end-of-April since 2004. Plus, demand for bellies and ribs is expected to keep prices firm through July. That’s also pushing cutouts higher. Meanwhile, June futures are at seven-year highs, with tightening market-ready supplies providing plenty of support.

Cattle/beef: Fed cattle carcass weights remain elevated from a historical perspective. Beef prices continue to soar, making the case for more processing to meet surging demand. But readily available supplies and labor shortages have made it tough for processors to deliver. This has also given packers little reason to share record cutting margins with producers.

Poultry: Strong demand for wings, ongoing chicken breast sandwich “wars” and tempered production have tightened frozen poultry supplies. Result: Broiler tenders, wings, leg quarters and boneless skinless thighs have all recently hit 52-week price highs.

Transportation: Re-opening of the Mississippi River under the now-closed I-40 bridge at Memphis eased river congestion. The Mississippi is not expected to be shut down during the repair process, though the Coast Guard may establish occasional safety zones.

BIDEN
BUDGET

Biden budget assumes capital-gains tax rate increase started in late April, meaning it would already be too late for high-income investors to realize gains at the lower tax rates if Congress agrees. Congress must still approve any rate changes and retroactive effective dates, and there is already reluctance building among Democrats.

His first full fiscal year budget for 2022 is massive, coming in at \$6 trillion. It's loaded with multiyear debt for the country and annual deficits topping \$1 trillion.

Biden may get more of his spending wish list than most think. While Congress will alter the final budget, a lot of Biden's proposed spending has already been unveiled and some even approved by this Congress. But other measures like infrastructure and social spending proposals are still being debated.

Biden's USDA budget proposes a big boost for nutrition spending and funding for climate change initiatives.

The president also wants a big boost in spending for EPA... to hire a lot more employees and ramp up enforcement and new regulations.

CATTLE
PRICING

Senate Ag Committee leaders agree on the need for a hearing on livestock pricing and the supply chain. Senate Ag Chair Debbie Stabenow (D-Mich.) is calling for a hearing on the matter to "look for solutions." Sen. Roger Marshall (R-Kan.) said his phone is "blowing up with this issue." Besides a Senate ag hearing on livestock pricing issues, others are urging a Senate Judiciary Committee hearing on the issue as well.

Lawmakers from both political parties are concerned about cattle markets because boxed beef prices are high while cash cattle prices are stagnant. Marshall said fifth- and sixth-generation Kansas ranchers are telling him their operations are endangered. In some cases, a single buyer will show up, offer a price and say, "Take it or leave it," he said.

USDA officials promise to enforce the Packers and Stockyards Act and be in close contact with the Justice Department on antitrust issues.

Six farm groups recently called on the Justice Department to investigate the highly consolidated meatpacking industry, where four companies slaughter more than 80% of all beef cattle and only a fraction of cattle are sold on the spot market. The meat industry said: "Cattle prices are where they are because they follow supply and demand," said the North American Meat Institute, speaking for meatpackers. The industry says the July 2020 USDA report exonerated it of any wrongdoing. "The disruption in the beef markets was due to devastating and unprecedented events."

RAILROADS

Canadian Pacific (CP) and Canadian National (CN) rivalry flares up again. CP says rival CN's offer to divest some track "doesn't even come close" to resolving competition concerns in the Kansas City Southern acquisition.

The war of words between CP and CN isn't over, with CP on May 27 issuing a statement that its merger rival's commitment to divest Kansas City Southern's New Orleans-Baton Rouge line is a "token divestment [that] would not begin to address the competitive issues in the rail corridors running north from Louisiana and Mississippi through America's heartland, where KCS and CN have historically competed."

U.S./CHINA

Back to volatility and things to look out for... especially with China.

Ag exporters are nervous about future U.S./China economic and trade policy.

They point to how aggressive China has been targeting Australia with sanctions, negatively impacting Australia's ag sector. U.S. exporters hope both countries can walk a fine line between competition and unfair trade actions.

Best regards,

The Ag Letter Editors
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