

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Dairy policy... easy to talk about, hard to do.

Dairy producers urged pricing reforms but noted widespread differences in operations present challenges at a recent Senate ag subcommittee hearing. The subcommittee was told that 2018 Farm Bill reforms could not address pandemic market impacts.

DAIRY
POLICY

Producers are unsure on exact reforms, but they agree using cost of production is not the solution (see box at right). Processors and economists also indicated reforms are needed, particularly to Federal Milk Marketing Orders (FMMOs), but they were unable to give a unified recommendation on what changes need to be made.

Pandemic upended changes in 2018 Farm Bill.

Changes that the U.S. dairy industry requested in the 2018 Farm Bill that shifted the way prices are determined for Class I milk... fluid milk... did not provide hoped-for results due to the pandemic, dairy producers told the panel. Those changes took the average of Class III and IV prices over a period of years and added \$0.74 per hundredweight (cwt.) to arrive at a Class I milk price.

The industry lost some \$750 mil. because of the pricing change for Class I milk that was made as the Class III price skyrocketed while the Class I price fell. If the previous higher Class III or IV price plus a fixed differential were used, it would have resulted in less negative Producer Price Differentials (PPDs) and better prices for farmers... that's why the panel was told changes are needed in milk pricing, and why it should be decoupled from prices for butter and cheese.

Deeper issue: FMMOs do not provide market-based incentives to move milk to the processing plants where it is most valuable. For decades, FMMOs encouraged overproduction of cheap, non-fat dry milk powder. When fluid milk sales were high, they subsidized milk powder returns. With fluid sales declining, per federal order rules, cheese makers were left to subsidize powder through revenue pooling, and they declined to do so in 2020.

Producers mostly agreed that the regulatory route would be faster for changing the system. However, they also noted that reforms to the FMMOs via regulatory process can also take time. Farm milk prices are built on several components, with FMMOs a "major part" of pricing, but they are also driven by regional factors. Market access is key for smaller farms.

As for using make allowances... processing credits designed to reflect the average processing costs associated with producing cheeses, butter, nonfat dry milk or dry whey... some producers were unsure on whether those would be effective if expanded.

Dairy Risk Protection (DRP) insurance is a way to manage risk, some producers said, adding that the way milk is priced makes it difficult for producers to manage risk.

Dairy Policy: Don't Use COP

Dairy producers agreed that tying prices to cost of production (COP) is not the answer. While producers were not sure exactly how to alter the pricing structure, the three producers testifying agreed that using subsidies to account for the cost of production suggested by subcommittee Chair Kirsten Gillibrand (D-N.Y.) was not the solution. Reason: Everybody's COP is different.

Producers and several lawmakers said school kids should be able to drink whole milk and not reduced-fat versions. "Kids should be drinking milk. It's a true plant-based beverage... 80% of our diet sometimes is plants for our cows and they're the natural factor that makes the awesome stuff," said Jim Davenport, a New York dairy farmer. "Whole-fat milk always tastes better than low-fat milk."

Source: Senate ag subcommittee hearing

U.S./CHINA
AG TRADE

Trade data confirms voracious Chinese appetite for grains. Trade data released by China's customs office shows the country imported 3.23 mil. metric tons (MMT) of corn during August, a 221% surge from year-ago levels. That pushed China's overall corn imports to 21.40 MMT for 2021, a 284% jump from last year at this time. China watchers tell us this is not a one-time development. The story is similar for other feed grains. The country's wheat imports in August were up slightly from year-ago at 710,00 metric tons (MT), but its year-to-date (YTD) imports of 6.96 MMT are up 40% from year-ago. Its barley imports totaled 690,000 MT in August, up 55% from August 2020, pushing China's YTD purchases of barley to 7.11 MMT, up 115% from last year. Beijing imported 810,000 MT of sorghum last month, a 27% gain from year-ago, with shipments now at 6.71 MMT for the first eight months of the year, up 129% from year-ago. The trade data also showed China's pork imports slowed 20.6% from year-ago levels to 280,000 MT in August, but the YTD tally of 2.93 MMT is still 1.0% ahead of year-ago.

China's wheat imports reach highest level in more than two decades. China is the world's largest consumer of wheat, accounting for 19% of global wheat consumption in marketing year 2020-21 (July-June)... more than four times the U.S. share. China also became a leading importer during 2020-21, with purchases estimated at 10.6 MMT, China's highest import total since the 1990s. USDA forecasts China's 2021-22 imports at 10 MMT. China's wheat imports totaled 3 MMT to 5 MMT for most marketing years between 2011-12 and 2019-20. The surge in imports in 2020-21 can be attributed to China's strong demand for wheat use in animal feed, replenishment of the Chinese government reserves with high-quality wheat, and efforts to meet import commitments in the U.S./China Phase 1 trade agreement. According to China's customs data, the U.S. supplied 3 MMT tons of 2020-21 wheat imports... approximately a 28% share.

China's soybean imports. China imported 9.04 MMT of soybeans from Brazil in August, an 890,000-MT (10.9%) jump from year-ago levels. The U.S. exported just 17,575 MT of the oilseed to China last month, a dramatic drop from shipments of 166,370 MT in August 2020. Brazil's soybean crop was planted late, and U.S. ports are still recovering after Hurricane Ida. The event's impact on trade should be more apparent in the September trade update. China's overall soybean imports of 9.49 MMT were marginally under year-ago levels.

RFS

OMB adjusts RFS meeting schedules... mandate details coming. The Office of Management and Budget (OMB) has been meeting with stakeholders about coming details regarding the Renewable Fuel Standard (RFS) proposed levels sent forward from EPA. Sen. Chuck Grassley (R-Iowa) said EPA would announce RFS details Sept. 24. As we went to press, *Reuters* was reporting the agency would propose cuts to conventional renewable fuel (largely ethanol) from the statutory 15.0 bil. gallons to 12.5 bil. gallons in 2020, 13.5 bil. gallons in 2021, and 14.1 bil. gallons in 2022.

RINS

EPA's OIG to audit RIN market. The Office of the Inspector General (OIG) will be conducting an audit on EPA's oversight of the market for Renewable Identification Numbers (RINs) under the RFS. The objective is to determine if EPA's "Moderated Transaction System and Quality Assurance Program include controls to identify and reduce the generation and trading of invalid RINs that are used to demonstrate compliance with renewable fuel standards as overseen by the EPA's Office of Transportation and Air Quality." OIG's goal is "identifying and correcting procedural or automated systems problems that increase fraud risks and reduce the positive environmental impacts of the RFS program." OIG said it would look for info from EPA offices, including:

- Laws, regulations, policies and guidance applicable to the moderated transaction system and Quality Assurance Program.
- Access to the EPA's moderated transaction system to pull RIN data.
- Access to demonstrate and test the aforementioned system's automated controls.
- Access to Quality Assurance Program records.

NATGAS

Natural-gas prices have surged, prompting worries about winter shortages and forecasts for the most expensive fuel since frackers flooded the market more than a decade ago, the *Wall Street Journal* reports. U.S. natural-gas futures have leapt 17% this month, and have doubled in six months.

It is supposed to be offseason for demand, but prices haven't climbed this high since blizzards froze the Northeast in early 2014. Analysts say that it might not have to get that cold this winter for prices to reach unprecedented heights for the shale era, which transformed the U.S. from a gas importer to supplier to the world. A substantial and sustained increase in price would be felt from households to heavy industry, including ag.

U.S. natural gas stockpiles are down 16.5% from a year ago, adding to concerns over a potential squeeze on supplies this winter. European natural gas stores are also short, and fertilizer producer CF Industries said it was halting production at a U.K. plant because of high natural gas prices.

MARKETS

Corn: Harvest has moved into focus, with 10% of the crop now in the bin. Open weather will keep some potential for harvest-related pressure on futures ahead. With USDA already adjusting acreage in its September report, crop size will be the focal point in October, with Sept. 1 stocks released at month's end the next market mover.

Soybeans: Harvest has started and results will be key. Farmers in dry northern areas may see some surprises after August rains arrived, but other areas saw warm, dry weather to finish the season, which may have limited pod fill. Focus on Sept. 1 stocks will be twofold: USDA's final 2020-21 carryover peg and any changes to 2020 soybean production.

Wheat: Winter wheat plantings have been taking place at a pace near average, though dryness is a mounting concern. From the demand side, U.S. wheat still is not being aggressively booked by global buyers, but there are some signs of life on the supply side with nicks to production in some key suppliers like Russia and France.

Rice: Futures are finding support from the tighter supply situation USDA outlined earlier this month even as there has been some selling pressure in other commodities. Demand has not been stellar for U.S. rice. Harvest is past the 50% mark.

Cotton: Harvest is inching along, leaving fields vulnerable as hurricane season is still a threat. Several states are just behind their average harvest pace, with key Texas just ahead. That will keep traders nervous if additional storms form. The U.S. dollar and views on the U.S. economy will also be key for cotton ahead... along with demand from China and others.

Dairy: Global and U.S. dairy prices have been firming, with some of the action seasonal but some tightness is also developing. Demand is also perking up with schools back to in-person learning. Dairy cow slaughter remains strong, keeping a lid on U.S. milk production. Margins are a key in keeping dairies moving older cows to market.

Poultry/broilers: Turkey harvest so far this year is down more than 6% from the same period in 2020. That will keep supplies limited for Thanksgiving and may leave late shoppers with bigger-than-wanted birds. Meanwhile, heavier-weight broilers have been coming to market, with weekly harvest showing nearly half at more than 7.75 pounds.

Hogs/pork: Pork cutout values continue to hold well above \$100 and pork demand remains solid. USDA's Sept. 24 inventory update will set the market tone into fall and early winter. The industry is generally anticipating further trimming of the U.S. herd.

Cattle/beef: Funds have been exiting live cattle futures and cash prices have moved sideways to lower in recent weeks. Choice beef dropped sharply from its late-August highs, falling for 15 straight days before giving some hints it may be nearing value levels this week.

Transportation: Hurricane Ida remains a headache for grain exports. Four export grain elevators representing more than 50% of the lower Mississippi River export capacity have resumed operations, loading oceangoing vessels. Others remain closed for final testing or because extensive repairs are required. There are 10 export grain elevators along the lower Mississippi River handling upwards of 60% of U.S. grain and soybean exports.

SEAFOOD U.S. seafood companies are facing an unusual supply chain challenge. A crack-down on shipping practices aimed at skirting U.S. transportation law has left millions of pounds of frozen fish stranded in cold storage at a Canadian port, the *Wall Street Journal* reports, while seafood processors on the American side of the border scramble for supplies to keep plants running and fill orders. The conflict is over the maritime Jones Act, which requires that domestic U.S. cargo be transported on U.S.-built and flagged vessels. Alaskan suppliers have been transloading shipments for the lower 48 states to sidestep the requirement, in part by rolling the fish on a 100-foot railroad. The impasse is focusing attention on the century-old Jones Act, but changes will be hard to ink.

MEAT INDUSTRY House panel investigating meatpacking plants re: Covid-19. Rep. Jim Clyburn (D-S.C.), chairman of the Select Subcommittee on the Coronavirus Crisis, sent letters requesting docs and other info from Cargill and National Beef Packing Co. “We are concerned that the scale of coronavirus infection in American meat processing plants may have been greater than previously believed,” Clyburn said in the letters. In February the panel sent similar letters to Tyson Foods, Smithfield, and JBS USA.

PLIP Layer flocks depopulated due to lack of an egg market don’t qualify for PLIP... Pandemic Livestock Indemnity Program, USDA announced. USDA said the Consolidated Appropriations Act of 2021 authorized PLIP for livestock depopulated due to insufficient processing access due to Covid-19. However, USDA said, “the act does not authorize PLIP because of the lack of market of a byproduct of eligible livestock because of Covid-19.”

TEXAS Only 45% of Texans approve of Gov. Greg Abbott as governor. A recent survey tracking Texas residents’ opinion of Abbott’s performance does not look favorable for the GOP governor. Roughly 54% of residents believe the state is going down the wrong path, with 44% saying it is headed in a good direction, according to the survey by the *Dallas Morning News* and the University of Texas at Tyler. The same survey found that only 45% of Texans approve of Abbott’s performance as governor.

Meanwhile, former Democratic Rep. Beto O’Rourke may run for governor of Texas in 2022, with an announcement expected later this year, according to Axios.

CONGRESS Congress has some major issues to deal with ahead. And the timelines on getting them done are getting even murkier. Consider:

- Stopgap spending/continuing resolution (CR): House Democrats passed a CR to continue gov’t spending through Dec. 3, with a debt suspension bill, in hopes of avoiding a gov’t shutdown as the fiscal year ends Sept. 30. But the combined measure is expected to be defeated in the Senate.
- Debt limit: The current debt limit must be addressed by late October, but Democrats for now cannot count on any Republican votes for dealing with the topic. This is especially important in the Senate.
- Traditional infrastructure spending: The Senate has passed the \$1-tril. measure, but House progressives (far-left liberals) may withhold their vote until they are sure their favored \$3.5-tril. human infrastructure will get a vote shortly thereafter. But Democratic moderates in the Senate want the price tag a lot lower, upsetting progressive Dems.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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