

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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A bull market farmers don't like: energy.

ENERGY
SHOCK

The 'First Big Energy Shock of the Green Era'... That's what the *Economist* calls the current state of global energy, as prices of carbon-based sources... from gasoline to coal... have soared.

The magazine points to various problems: "First, energy investment is running at half the level needed to meet the ambition to reach net zero by 2050," it writes. As the world chases a green transition, "spending on renewables needs to rise," and natural gas needs to be utilized as a bridge from coal and oil to a cleaner future.

Another problem: autocracies' growing role in energy, as Russia and OPEC members figure to account for larger shares of global fuel production, while "rich democracies" try to quit carbon.

Pace of the energy transition to green fuels has caused a power crunch across the globe. Some risks were detailed in the new *World Energy Outlook* from the IEA, which advises governments on energy policy.

"There is a looming risk of more turbulence for global energy markets," said IEA Executive Director Fatih Birol. "Spending on oil and natural gas has been depressed by price collapses in 2014-15 and again in 2020. As a result, it is geared toward a world of stagnant or even falling demand.

If the supply side moves away from oil or gas before the world's consumers do, "then the world could face periods of market tightness and volatility. Alternatively, if companies misread the speed of change and over-invest, then these assets risk under-performing or becoming stranded."

Focus now turns to the November COP26 climate change summit in Glasgow, Scotland, where attention will be sustainable solutions when country leaders gather. The confab will be held Oct. 31-Nov. 12.

Several Biden Cabinet officials will attend, including USDA Sec. Tom Vilsack. Also attending: former President Barack Obama will join current President Joe Biden.

Energy czar John Kerry is already tempering what could occur at the confab. Reason: Congress may not have the climate change language in the Build Back Better legislation approved by the time of the meetings.

Oil prices are up more than 60% in 2021, while U.S. natural gas prices have more than doubled this year... see box. At the same time, spending on clean energy transitions is far below what would be required to meet future needs in a sustainable way, IEA added in a report, advocating for annual spending on clean energy to triple to \$4 trillion by the end of the decade in order to achieve net-zero emissions by 2050.

RISING ENERGY PRICES

• **Crude oil up 64%** this year to a seven-year high.

• **Natural gas roughly doubled** past six months to seven-year high. In Europe, prices have gone from below \$2 per million BTU last year to \$40.

• **Heating oil up 68%** this year.

• **Gas prices surged** to a national avg of \$3.27 a gallon... Nearly double since bottoming at \$1.77 in April 2020.

Coal prices at records levels.

Impacts: Surging prices have already upped corn cost of production for 2022 by 16%, meaning fewer acres planted.

Economy: Rise in energy prices cutting some estimates for U.S. growth next year to 1.5% from 3.5%.

Source: Federal Register notice

WHIP+

Deere strike: Just over 10,000 workers at Deere & Company plants in the U.S. went on strike recently after more than 90% of the UAW rejected the company's latest contract offer. The six-year offer from Deere would have raised wages by 20% over the life of the contract and increased some benefits.

Deere has 28,100 employees in the U.S., with about 4,000 production workers at non-union plants or represented by other unions still on the job. In the contract, Deere would have set top-scale Deere production workers' wages at just over \$30 per hour, rising to \$31.84 after five years. Workers bargained for incremental wage increases over six years, equal to about a \$1.20 raise in hourly pay at the end of the six-year contract.

This is the first UAW strike at Deere since 1986... a walkout lasting 163 days.

Deere said it would shift some duties for salaried workers that are not involved in the strike, with employees and others entering factories to keep operations going for the company's agriculture and construction industries.

Strikes are now the trend following supply-chain issues. Dissatisfaction over working conditions amid soaring demand for labor have also led to strikes at Kellogg and Mondelez International's Nabisco. Shortages of goods and labor during the pandemic led to mandatory overtime policies at employers such as Nabisco, where workers reportedly had to work six to seven days of 12- to 16-hour shifts regularly.

MEAT
PRICES

White House again cites big packers as cause of some food inflation. Food prices rose 4.6% in September, and it didn't take long for the White House to pounce on consolidation in the meat industry. Beef prices are up nearly 18% for the last 12 months. White House Press Secretary Jen Psaki singled out meatpackers for blame. The price of meat is "an issue that has been impacting them (consumers) nearly every single day," Psaki said. She said rising meat prices are due in part "to competition, and the small number of large meat producers who have a dominance over the market."

CLIMATE
CHANGE

Climate change poses "systemic risks" to the U.S. financial system, according to a White House report. The report laid out five main areas:

- Promoting the resilience of the financial system;
- Protecting pensions and savings from climate-related financial risk;
- Making federal government procurement decisions with climate in mind;
- Including climate-related risk in federal lending and underwriting; and
- Bolstering infrastructure and communities by encouraging more resilient land use and construction practices.

WOTUS

EPA asks for proposals on WOTUS roundtables. EPA pledged to hold a series of regional roundtables this fall and winter as part of its plan to put a new definition of waters of the U.S. (WOTUS) in place. EPA announced it was asking communities to "propose roundtables" to give the agency input on regional impacts regarding WOTUS. "The regional roundtables will engage stakeholders representing diverse perspectives in meaningful dialogue to help inform the agencies' work to develop an enduring definition of WOTUS that supports public health, environmental protection, agricultural activity, and economic growth," the agency said.

EPA wants stakeholders to submit nomination letters listing participants to potentially be selected as one of 10 geographically focused roundtables. EPA said it wants the letters no later than Nov. 3.

As for the potential participants... EPA said they "must" include proposed participants including those from "agriculture; conservation groups; developers; drinking water/wastewater management; environmental organizations; environmental justice communities; industry, and other key interests in that region."

Proposed rule: This comes as EPA has forwarded to the Office of Management and Budget (OMB) a proposed rule for an updated definition of WOTUS, presumably the action to put the pre-2015 definition back in place as the roundtables indicate the agency has not yet developed its plans for a new definition of WOTUS.

FED

Fed officials signaled they should start reducing emergency pandemic support for the economy in mid-November or mid-December, according to the latest FOMC minutes. The program could then end by mid-2022. Keep in mind that the central bank is currently purchasing at least \$80 billion per month of Treasury securities and at least \$40 billion per month of mortgage-backed securities.

While the inflation outlook was raised in the near term after much discussion, Fed staff continues to predict the recent acceleration is “transitory.” Most recent CPI data showed headline prices rising by 5.4% versus year-ago in September, marking the fifth consecutive month of annual increases of 5% or more.

When the Fed will start boosting interest rates is a more distant timeline, with most thinking it will be 2023 before rates start inching higher. Not all are in agreement with later rather than sooner. Morgan Stanley’s Chief Executive Officer James Gorman is ready for higher interest rates, proclaiming “you’ve got to prick this bubble.”

MARKETS

Corn: Futures are in the lower end of the established trading range. Buyers continue to show up in the low-\$5 range. Some U.S. plantings in 2022 could shift to wheat and other feed grains due to high corn input prices, with fertilizer costs already adding an estimated 16% to corn cost of production. Meanwhile, corn futures in China are near a two-month high as rains hurt their harvest more than expected.

Soybeans: USDA’s sharply expanded supply outlook signals more downside price risk, despite the recent rebound. As harvest winds down, China’s recent return as a buyer of U.S. soybeans, if sustained, could help stabilize futures, perhaps even spark short-term rallies offering opportunities for farmer pricing.

Wheat: Prices have risen as world stockpiles are contracting more than expected. As seeding of the U.S. winter crop wraps up, dryness continues to grip much of the Central and Southern Plains. Emergence is behind the average pace, and a poorly established crop could further tighten an already snug global supply outlook for 2022. But export demand is needed for a sustained price push higher.

Rice: USDA’s outlook for 2021-22 is for reduced U.S. supplies, lower domestic use, unchanged exports and smaller ending stocks. The season-average farm price for all rice was unchanged at \$14.80 per cwt. The 2021-22 global outlook is for larger supplies, increased consumption, greater trade and higher ending stocks.

Cotton: U.S. futures are in a full-fledged bull market. Some producers are locking in some 2022-crop hedges with December 2022 futures above 90.00 cents. Rising oil prices will catalyze the next move higher across commodities.

Hogs/pork: In China, hog futures have tumbled 45% this year as its pig herd recovers from the ravages of an African swine fever outbreak in the world’s largest pork market. In the U.S., slumping beef prices seem to be dragging pork prices lower, but both wholesale sectors remain high by historical standards.

Cattle/beef: Feedlot marketings aren’t current. Weights remain well above those from two years ago. Analysts say this probably won’t improve anytime soon, since deferred cattle futures are trading at sizable premiums to cash and encouraging producers to defer sales. Strong demand will support prices, but the upside seems limited without current marketings.

Poultry/broilers: Food prices are climbing amid worker shortages, supply-chain problems, extreme weather and more. People have substituted fast food for home-cooked, comfort meals, causing chicken to become scarce in some areas. Some suppliers have announced a shortage of chicken, limiting some restaurants’ menu items and increasing the price in stores.

Dairy: Milk production forecasts for 2021 and 2022 from USDA were reduced from last month on smaller dairy cow numbers and slower growth in milk per cow. For 2021, cheese, nonfat dry milk and whey price forecasts were raised on current prices and lower expected production. The butter price was lowered slightly on current prices. For 2022, all dairy product prices were raised, largely on tighter supplies.

PORTS

24/7 for busy port. The Port of Los Angeles, one of the busiest ports in the country, is starting to operate 24 hours a day and 7 days a week to ease cargo bottlenecks that have led to shortages and higher consumer costs. While the neighboring Port of Long Beach, Calif., also started doing a 24/7 schedule last month, major ports in Europe and Asia have operated around the clock for years. The latest change was announced by the White House as it seeks to alleviate supply chain issues ahead of the holidays, though the increase in capacity will require cooperation from major U.S. companies like Walmart, FedEx and UPS. But analysts say the real issue is the lack of workers to unload the cargo and then drive the trucks to destinations. Not enough truck drivers to clear a backlog of containers threatens to temper Christmas shopping, a fear of the Biden White House.

SUPPLY CHAIN

DP World chief sees supply chain issues persisting for two years. Global supply chains could be plugged for up to two years as the world has become so reliant on China for manufacturing, Sultan bin Sulayem, chair of DP World, told the *Financial Times*. “Delays today are not just the problem of what is not delivered, the problem is also the other products that can’t be delivered. They are in a queue now.”

Tough anti-Covid rules in China have contributed to the situation as the country has become such a key in the global supply chain. If China has an outbreak, it closes the affected port, impacting the supply chain.

Bin Sulayem predicted firms could move some operations into developed countries, seeking to take advantage as manufacturing becomes more automated.

FOOD LOGISTICS

Another potential logistics problem: getting food to schools. USDA Sec. Tom Vilsack is consulting with food industry officials to see how USDA can help schools overcome challenges and get the food they need. As the economy has reopened, “the demand was great. And I think what we have seen is a significant fragility of our supply chain systems, not just in the United States, but globally,” Vilsack said.

FOOD TEST

McDonald’s is testing out its McPlant burger in several cities. The McPlant, featuring a plant-based patty created in partnership with Beyond Meat, will be available at eight restaurants for a limited time starting Nov. 3, McDonald’s said. The restaurants are in cities including El Segundo and Manhattan Beach in California; Cedar Falls, Iowa; Irving and Carrollton, Texas; and Jennings and Lake Charles, Louisiana, McDonald’s said.

ENERGY PRICES

How will Biden team deal with surging energy prices? Republicans on the House Energy and Commerce panel want answers from DOE’s Jennifer Granholm. They want her to lay out actions being considered, including the authorities the Department of Energy (DOE) may use, such as tapping the Strategic Petroleum Reserve (SPR) or banning U.S. crude exports with winter approaching and predictions of a cold winter.

XMAS

Early Christmas shopping. According to a RetailMeNot survey, 37% of shoppers began their holiday shopping between August and September (if not earlier). Another 22% said they would start shopping in October, while 24% planned to begin in November ahead of Thanksgiving. Americans are expected to spend about \$1.3 trillion this holiday season, per the latest forecast from Deloitte... a 7% to 9% increase over last year.

BIDEN POLL

Biden’s approval numbers keep slipping. Biden’s crashing polling numbers continue as he fumbles with the border crisis, a 13-year high in inflation, and the threat of empty toy shelves for the Christmas buying season. In a new Zogby Poll, Biden hit another job performance low with a 36.4% approval rating.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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