

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Nov. 5, 2021

Ag stands to lose a lot...

If President Biden's infrastructure plans blow up.

BUILD BACK
BETTER?

We're not saying they will...

But new hurdles have surfaced, especially with centrist Sen. Joe Manchin's (D-W.Va.) recent comments about the \$1.75 tril. social spending/climate measure.

\$27-\$28 bil. in new conservation spending is included in the framework agreement for the Build Back Better (BBB) plan. That could still change, but it would still be a lot more funding... *see details in the box.*

What's not in BBB may be as important:

- No changes to stepped-up basis for farmers.
- No changes to estate tax exemptions.
- No changes in capital gains taxes.
- No increases in individual tax rates.

Potential cover crop program. The package includes a \$25-per-acre payment to farmers for planting cover crops. Payouts would not be subject to payment limits, but there is a 1,000-acre limit. There is also a \$5-per-acre payment to owners of a farm where a producer establishes one or more cover crop practices... also limited to 1,000 acres.

Other ag sector funding in BBB:

- \$27 bil. to restore forests, fight wildfires and sequester carbon in trees.
- \$2 bil. for ag climate research and ag research facilities.
- \$18.3 bil. to invest in "rural prosperity" and help rural communities transition to cleaner energy.
- \$10 bil. for child nutrition.

Billions of dollars in farmer debt relief is also in BBB. Democratic leaders say \$6 bil. will be provided to expand support to economically distressed borrowers and "underserved farmers, ranchers and forest landowners in high-poverty areas."

Another \$5 bil. in already approved funding for debt forgiveness would be added... funding tied up in the courts on charges it discriminates against some farmers.

Provides full and partial debt forgiveness on direct loans and offers loan modification services to USDA direct and guaranteed borrowers.

Farmers or ranchers who experienced past discrimination in USDA credit programs could apply for additional assistance of up to \$500,000.

Gives additional aid to historically underserved producers living in high-poverty areas to address credit barriers, land access and a lack of technical help.

BBB SPENDING ON CONSERVATION PROGRAMS

The following are funding levels in the Build Back Better (BBB) proposal. This would be in addition to the current spending levels for conservation programs.

The proposed funding levels show how the Biden administration and congressional Democrats want to stress conservation spending relative to climate-change initiatives.

Program	Mil. \$
EQIP	\$9,000
RCP	\$7,500
CSP	\$4,100
ACEP	\$1,700
GHG Measuring	\$600
Conservation technical assistance	\$200
Cover Crop Payments	\$5,000
Total	\$28,100

Source: Congressional contacts.

CFAP

CFAP payment update. Total payouts approved for the Coronavirus Food Assistance Program 2 (CFAP 2) edged up slightly to \$18.77 bil. as of Oct. 31, up from \$18.76 bil. the prior week, as original CFAP 2 payments moved up to \$13.95 bil. from \$13.94 bil. the prior week. The top-up payments changed little during the most recent week and are at \$4.82 billion.

Total CFAP 1 payments stood nearly unchanged at \$11.79 bil. as of Oct. 31, with \$10.6 bil. in original CFAP 1 payments and \$1.19 bil. in top-up payments.

Farmers and ranchers have received nearly \$30.6 bil. in Covid relief payments in the past 17 months. Pandemic assistance is a major element in farm income this year, as it was in 2020, and is projected to equal one-fourth of net farm income. Although commodity prices remain high, U.S. net farm income is projected by USDA to decline in 2022 with the expiration of the pandemic payments.

ARC/PLC
PAYOUTS

USDA touts payouts coming under ARC, PLC programs. Eligible producers will receive a total of \$1.8 bil. in payments for 2020 crops under the Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs this month. No PLC payments were triggered for corn, sorghum or soybeans, but were triggered for several other crops including wheat (\$819 mil.), seed cotton (\$450 mil.) and peanuts (\$365 mil.) for a total of \$1.73 billion. Under the ARC County (ARC-CO) option, payments were triggered for all covered commodities totaling \$56.7 mil., with the largest totals for corn (\$25.0 mil.) and wheat (\$21.4 million). Another \$19.5 mil. was issued under the ARC Individual (ARC-IC) option, putting total payouts under all three program options at \$1.8 billion.

DAIRY

Dairy Margin Coverage (DMC) payments triggered for September. Payments for certain coverage levels under the Dairy Margin Coverage (DMC) program have been triggered by the national average margin for Sept. 2021 of \$6.93 per hundredweight (cwt). Operations with Tier 1 DMC coverage levels of \$9.50, \$9.00, \$8.50, \$8.00, \$7.50 and \$7.00 per cwt. will be triggered, while payments for Tier 2 DMC coverage levels of \$8.00, \$7.50 and \$7.00 per cwt. will be triggered. The payments will range from \$0.07 per cwt. for \$7.00 coverage levels up to \$2.57 for \$9.50 coverage levels. DMC payments are triggered when the difference between the all-milk price and the average feed price... the margin... falls below a certain dollar amount selected by the producer.

RFS

Is this the real reason why there has not yet been an RFS announcement? Some Washington sources say the Biden administration is holding off announcing several long-awaited Renewable Fuel Standard (RFS) decisions until after the two infrastructure-related measures are passed by Congress.

Reason: The pending measures have \$1 bil. in funding for the biofuel industry. Combined with the coming announcement of \$700 mil. in biofuel aid relative to Covid program assistance, it will show the administration's support for the biofuel industry — even if the coming RFS announcements may not please the biofuel sector.

2021:
HOT YEAR

The year 2021 is expected to qualify among the hottest seven in history, all of them recorded since 2014, according to an early estimate by the United Nations World Meteorological Organization. Officials meeting in Glasgow conferred on how to keep warming below 2°C (3.6° Fahrenheit) vs pre-industrial levels... and preferably 1.5°C.

TRADE
POLICY

The U.S. and the EU reached a trade truce on steel and aluminum that will allow the allies to remove tariffs on more than \$10 bil. of their exports each year. They will now try to leverage that into a broader global arrangement that would penalize countries that don't meet low-carbon targets for steel and aluminum exports.

This is being seen as a positive trade policy development between the two large trading blocs. And it is the beginning of what most see as President Biden's trade policy strategy as he tries to differentiate from polices under the former Trump administration. Look for more Biden trade policy announcements ahead.

Fed officials signaled they will start reducing emergency pandemic support for the economy later this month. The Fed will reduce its net asset purchases by \$15 billion per month... \$10 billion for Treasury securities and \$5 billion for agency mortgage-backed securities... though the pace could be adjusted if necessary. The Fed aims to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

Fed officials acknowledge inflation will last longer than previously thought, but continues to predict the recent acceleration is “transitory.” Most recent CPI data showed headline prices rising by 5.4% Y/Y 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. Fed Chair Jerome Powell previously stated the conditions for raising interest rates are far different than those for the tapering of asset purchases. Immediately after the FOMC meeting, Fed fund rate futures implied 90% odds of a rate increase by December 2022.

Corn: Most are keeping attention focused on the demand side of the equation. With weekly ethanol production hitting its second highest level on record in mid-October, that is underpinning demand expectations. Focus is also on 2022 planted acreage with lofty fertilizer prices an increasing factor tempering expectations.

Soybeans: China’s appetite for U.S. soybeans has been strong of late, keeping support under soybean futures. There are still some acreage questions as the fertilizer situation could boost 2022 soybean acreage.

Wheat: Spring wheat pushed to a 10-plus year high while winter wheat has also moved to multi-year highs amid dryness in U.S. Plains HRW wheat areas in particular. Condition ratings for the winter wheat crop ahead of dormancy remain key. Tightening global supplies should steer business to the U.S., but it has been slow to materialize.

Rice: U.S. harvest is all but done and solid yield results are coming in. But milling yields are said to be disappointing at this stage. U.S. export sales of rice have also been mildly disappointing, another factor keeping rough rice futures under pressure.

Cotton: Robust cotton prices could be a factor for 2022 acreage for other crops as cotton growers may move up their acreage intentions. Prices have made up for a lack of the usual gov’t payments linked. China’s appetite for U.S. cotton has continued solid as it seeks to avoid sanctions linked to Xinjiang, the key cotton production area.

Hogs/pork: The slowdown in buying by China has pressured lean hog futures. The outlook for Chinese purchases in November is not spectacular either, putting downward pressure on expectations for December lean hog futures. So continued pressure on futures is certainly possible, though the discount to cash is already wide.

Cattle/beef: With retail beef prices at all-time highs and the beef market entering a weakening seasonal demand period ahead of year-end buying, early 2022 live cattle futures contracts could come under pressure. But it still appears the overall market trend has shifted out of a multi-year decline into a potential longer-term uptrend.

Poultry/broilers: Broiler meat in freezers remained tight in September compared with year-ago levels even as it edged up from August marks. Supplies are down 17% from the same period in 2020 and were down 20% from 2019 supplies. Given supply and demand factors, below-year-ago supplies are expected the remainder of the year.

Dairy: September milk production was up only 0.2% from year-ago levels, well below expectations. High feed costs have cut into margins and prompted some 85,000 head to be removed from the U.S. dairy herd over the past four months. However, margins are expected to heal in the fourth quarter and into 2022, which should raise production down the road.

Transportation: Lingering effects from Hurricane Ida continue to disrupt exports. More traffic for U.S. grain and soybean exports is shifting to the PNW away from the Center Gulf in part as rail service and ocean freight spreads are also favoring the PNW.

BSE

OMB review of USDA plan to revise import rules for sheep, goats relative to BSE.

The Office of Management (OMB) has completed its review of USDA's plan to amend regulations of imports of live sheep, goats and certain other non-bovine ruminants, and products derived from those animals, regarding bovine spongiform encephalopathy (BSE) and scrapie. USDA is removing BSE-related import restrictions on sheep and goats and most of their products and adding import restrictions related to transmissible spongiform encephalopathies for certain wild, zoological or other non-bovine ruminant species. USDA said the action is based on the World Organization for Animal Health (OIE) rules.

EVs

Ambassadors from several countries call out extra tax credit for union-made

EVs. Provisions in the social infrastructure/Build Back Better (BBB) package to provide an extra \$4,500 credit for electric vehicles (EVs) that are made by union workers has drawn the ire of ambassadors from several U.S. trading partners. The officials said in a letter to congressional leaders of both parties that the extra tax credit for EVs made by union workers "would be detrimental to international automakers and vehicle importers" and would "violate international trade rules, disadvantage hard-working Americans employed by these automakers, and undermine the efforts of these automakers to expand in the U.S."

Problem: Limiting the credit to only union-made vehicles "based on their U.S. domestic assembly and local content is inconsistent with U.S. commitments made under WTO multilateral agreements," the officials said. "It puts U.S. trading partners at a disadvantage and tarnishes the spirit of trade laws that seek to establish the free and fair movement of goods. Our governments support workers' right to organize. It is a fundamental right and should not be used in the framework of tax incentives, setting aside the opportunities for nearly half of America autoworkers." The provisions would also work against U.S. climate commitments, the officials noted.

INDIA

ITA preliminary determination on imports of organic soymeal from India. Imports

of organic soymeal from India are being or are likely to be sold in the U.S. at less than fair value, according to a preliminary determination from the Department of Commerce International Trade Administration (ITA) in the Federal Register.

There was an estimated average dumping margin of 18.85% on imports from several firms with a rate of 3.11% for all other firms.

Comments are due 30 days after being published in the Federal Register. One of the companies named in the investigation... Bergwerff... requested that ITA delay its final determination in the matter and that will now be made no later than 135 days after today's publication.

The International Trade Commission (ITC) will now make a determination on whether the imports are materially injuring or threaten material injury to the U.S. industry. That determination is due no later than 120 days after this preliminary determination or 45 days after the final determination.

CONGRESS

Back to the infrastructure measures. While most Washington contacts believe a

way will be found to get both the bipartisan infrastructure bill (BIF) and BBB passed, the social spending and climate package is facing big changes to get the necessary votes in the Senate. There is a chance both BIF and BBB could falter, but there is true bipartisan support for the traditional infrastructure spending measure that totals around \$1 tril., with \$550 bil. in new spending. Another incentive: Democrats looking ahead to midterm elections in 2022 know that if they strike out on infrastructure, they could face voters' wrath, just as they did in this week's elections.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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