FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 92, No. 26

Dear Client: Washington, Dec. 17, 2021

Major ag industry issues are clear after several speeches in farm country the past few months.

FERTILIZER

Surging fertilizer prices are the most talked about issue. More than a few farmers told us they are “open” on their decisions, waiting to see if prices calm a bit early in 2022. Based on history, that’s not likely to happen. Dr. Joe Outlaw, a Texas A&M economist, told rice growers fertilizer prices are “a lot like an elevator… quick to rise and slow to come down.”

Those waiting and not locking in purchases could cause delivery problems in some areas. Some want the Biden administration to expedite fertilizer movement, de-emphasizing movement of some other products, like coal.

Studies on the topic have or will soon be released. Farm Bureau economists released info on fertilizer price hikes and tax implications. There are many reasons fertilizer prices have skyrocketed, the group’s Market Intel service said in a report. The report said farmers’ inability to purchase their fertilizer in 2021 for 2022 means they will likely face a higher tax bill in 2021.

As for 2022 planting intentions, the report said: “Given all these factors, fertilizer prices are expected to remain high through springtime, which may compel some farmers to shift planted acres away from corn to commodities that use fertilizer at a lower rate, like soybeans or wheat. With the price of ammonia about 85% correlated with the price of corn, farmers must consider whether the increased cost of fertilizer and other inputs can be recovered by cash receipts from crop revenues in order to break even. There are also expectations retailers will have to turn customers away because they will not be able to deliver fertilizer products on time, increasing the need for supply chain and infrastructure improvements.”

Texas A&M Univ. will soon release its study, requested by a rice state lawmaker and a state commodity group. Some say the reports could serve as fodder to get congressional or Biden administration aid to offset some of the price impacts.

DELAY IN RUSH TO EVs?

Lithium prices are rising at their fastest pace in years, setting off a race to secure supplies and fueling worries about long-term shortages of a vital ingredient in the rechargeable batteries that power everything from electric vehicles to smartphones.

Impact: The surge in lithium prices suggests that it may take longer for EVs to become cost-competitive with gas-powered cars. There are other reasons, but most involve the role of critical minerals of which the U.S. relies on imports for nearly all clean-energy minerals. An EV requires more minerals (456 pounds) vs. the average gas-powered car (75 pounds).

Upshot: The next super supply crunch could be for nickel, lithium and other must-have minerals.

Source: Ag Letter editors

FARMLAND VALUES

Farmland values are another hot topic. Prices continued to rise wherever we went… Illinois, Texas, N.D., Kan., Minn. and Mo., among other states.

$10,000 land values are being seen in portions of North Dakota and Minnesota, still well below prices in Iowa and Illinois, but impressive values.

Focus on renewable diesel and climate change will boost farmland values, believe some producers and land experts we consulted. Coming carbon credit programs and conservation programs will provide some of the thrust ahead.

VACCINES

Vaccine mandates are a sensitive topic in farm country. While many farmers have taken vaccines, a lot told us they don’t believe they should be mandated.

The Agriculture Letter is published biweekly for $139/one year, $264/two years, $396/three years (U.S.) by Farm Journal Media, Ag Letter Editor Jim Wiesemeyer, 402 1/2 Main St., Cedar Falls, Iowa, 50613-9985. ISSN 2181-4217 (print), ISSN 2381-4225. POSTMASTER: Send address changes to The Agriculture Letter, 820 James St., Webster City, IA 50595.
Subscription inquiries: 888-752-2047
Editorial information: Tel., 800-772-0023; Fax, 319-277-7982; E-mail: agletteditors@farmjournal.com; or AgricultureLetter.com

RUSSIA & UKRAINE <u>What's the market impact if Russia invades Ukraine</u>? Corn producers know Ukraine sells a lot of corn to China and think corn futures could rise if Russia leader Vladimir Putin decides to get even more aggressive with the former Soviet satellite state. That could be a short-term impact, but it remains to be seen if any delay in Ukraine trade would be lengthy. Let's hope cooler heads prevail and Russia backs off.

CHINA <u>Another geopolitical topic in the ag sector: China</u>. Farmers know they would be again caught in the middle if Chinese leader Xi Jinping "deals" with Taiwan. Xi has repeatedly said he doesn't want another generation in China to have to deal with Taiwan not being "returned" to Beijing. Some China watchers predict Xi will "do something" well before the 2024 U.S. elections because Beijing thinks the Biden administration is weak and it fears a Republican will win the White House in 2024.

FARM BILL <u>Will there be a new farm bill in 2023</u>? Farmers were surprised when we told them an extension of one or two years is the more likely route. Why? House Republicans note election polls showing high odds they will regain control of the House, and perhaps a very close Senate, after 2022 elections. Why would Republicans on the House Ag Committee push for a new farm bill before the elections... when they could likely put their stamp on the process? This doesn't mean your commodity groups should stop educating lawmakers.

WHIP+ <u>WHIP+ is a popular topic</u>. The program is very popular in those areas experiencing ag disasters the past few years. Farmers hope the program is made less complex and payments are accelerated for eligible 2020 and 2021 crops, livestock and dairy.

WASH D.C. <u>Will Washington ever be a civil place again</u>? We were asked that publicly and privately. Our answer: When one political party clearly overreaches, and voters kick them out and reward the other major political party enough so that the defeated party cannot come back into control the next election. Election watchers say this could happen in the House, but not the very close Senate.

LABOR <u>Farm labor… how to find workers, how to keep them</u>. Some farmers say there are increasing workers coming from South Africa and urge they be exempt from travel restrictions relative to Covid regulations. Others told us they have asked their workers what is needed to maintain their employment. Some operations have increased their use of automation, including some fully robotic dairy farms. Meat processors told us they are "spending a lot of money" on robots to do jobs humans used to.

BIOFUELS <u>Corn producers want to know the future of ethanol</u> relative to the push for electric vehicles (EVs). Innovators see a bright outlook as the U.S. and other countries deal with the need for low carbon solutions to climate change. They see biofuels aiding this effort. This is especially the case with renewable diesel, which has a lot of interest among soybean and canola producers in this country and Canada.

<u>As for EVs, the big push will take time, along with getting the charging stations</u> infrastructure in place. And as the box on page one illustrates, the runup in prices for critical minerals used in EVs could delay the ramp up ahead.

TAXES <u>We were surprised some farmers did not know this</u>: Congress will not alter current stepped-up basis as part of the Build Back Better proposals. The ag sector did a good job informing Congress and the White House how damaging that would be. Congress will also not alter the current federal estate tax exemption levels. Nor will legislation change like-kind exchanges that would have negatively impacted the farmland market. We also told farmers attending the many events we spoke at and covered that there will be no major changes to capital gains taxes.

<u>Sometimes it is more important what Congress does not do, than what they want to do</u>.

FED RESERVE

Fed is taking a much more aggressive stance toward inflation, ditching its "transitory" mantra for a hawkish tone. It will double tapering of asset buys and accelerate interest rate hikes, citing surging inflation and improvements in the labor market.

Starting in mid-January, the Fed will cut its monthly bond purchases by $30 bil. per month... by $20 bil. per month for Treasury bonds and $10 bil. a month for mortgage-backed securities. While noting that "similar reductions in the pace of net asset purchases will likely be appropriate each month," the Fed signaled that it would adjust the pace "if warranted by changes in the economic outlook."

The updated Fed dot plot also painted a change in stance toward monetary policy. All FOMC members expect at least one rate increase in 2022, with five expecting two and 10 expecting three increases by the end of next year. And, two members indicated they expect four increases in the target range for the Fed funds rate. The outlook for 2023 ranges from the target range of the Fed funds rate to be at 1% to 1.25% (two members), 1.25% to 1.5% (five members), 1.5% to 1.75% (three members), 1.75% to 2% (five members) and three expect the range to be from 2% to 2.25%.

MARKETS

Corn: Demand news is the focus. Exports have been solid but demand from ethanol producers has been even stronger. Keys ahead: China's appetite for global feedgrains. South American weather remains a wildcard.

Soybeans: Crush demand has been stellar as soyoil production has continued to be a focus. The Renewable Fuel Standard (RFS) levels were viewed as somewhat disappointing for 2022, putting more focus on the prospects for 2023 and beyond. China's buys of U.S. soybeans have also provided support.

Wheat: Tight global milling-quality supplies have raised hopes that U.S. wheat will have a better time competing in global tenders. Still, it will take more than demand hopes to keep prices supported at current levels and forecast carryover from rising.

Rice: Demand is key as the December WASDE report saw USDA lower projected rice carryover. And prospects for 2022 acreage remain somewhat uncertain with inputs like fertilizer presenting a challenge for growers as they work on next year's cropping mix.

Cotton: Export sales remain a positive. China and other countries are picking up supplies from the U.S. and other countries as they seek to capitalize on the recovering global economy and work around restrictions faced by China over human rights issues in Xinjiang. But the U.S. shipments pace is a concern amid container shortages.

Sugar: Beet producers in North Dakota and Minnesota told us they had one of if not the best crop ever this past year... in all aspects. But costs to deal with a fungus have them concerned about prospects ahead.

Hogs/pork: U.S. pork exports remain solid, but the downturn in demand from China is a noticeable shift on the trade front. Imports continue to be strong, setting a new record for October. That marked a third straight month of record imports, with half of those supplies coming in from Canada.

Cattle/beef: Retail prices pulled back from recent records. With cash markets appearing to have topped, beef demand in 2022 will be telling for cattle futures.

Poultry/broilers: U.S. broiler exports in October rose from September even though they were down from year-ago... they were the fourth largest month on record, with leg quarter shipments providing most of the rise from September.

Dairy: U.S. dairy herd contraction and higher feed costs have tempered output. But U.S. dairy exports have also ebbed, likely reflecting supply chain woes more than any demand issues. October shipments were hoped to rise 3.5% vs. year ago but were down nearly 2% as powder and whey product exports fell.

Transportation: Grain movement to export positions in the U.S. improved by barge traffic through the key locks in the most recent week. But grain barge movements will be constrained to the Illinois, Ohio, Arkansas and lower Mississippi river, as northern locations are closing to navigation for the winter.

DISASTERS

Natural catastrophes caused insurance losses of $105 bil. in 2021, according to an estimate from Swiss Re, a reinsurer. That is the fourth highest figure since 1970 and 17% higher than last year. Extreme weather events are becoming increasingly costly. The most expensive events this year were Hurricane Ida and winter storm Uri, in America, and flooding in Europe in July.

CFAP

Little change in CFAP 1, 2 payments. Payments under the Coronavirus Food Assistance Program 2 (CFAP 2) effort totaled $19.04 bil. as of Dec. 12, including $14.22 bil. in original CFAP 2 payments and $4.82 bil. in top-up payments, little changed from the prior week. CFAP 1 payments are now at $11.75 bil. as of Dec. 12, down slightly from the prior week's total, as the level of original CFAP 1 payouts was trimmed to $10.56 bil. from $10.58 bil. the prior week, with top-up payments steady at $1.19 billion.

DISASTER RELIEF

USDA's Bonnie wants disaster relief focus in new farm bill. Robert Bonnie, USDA's undersecretary for farm production and conservation, says discussions on how to reform and create new disaster aid programs should be part of negotiations over the next farm bill, *Politico* reports. Bonnie met with ag producers and advocates to discuss this year's historic drought in the Pacific Northwest. "We will be as flexible as we can with what we got, but I think there is a conversation going into the next farm bill about this and how we make sure programs work as is intended," Bonnie was quoted as saying during a roundtable discussion, where farm advocates noted that certain commodities and producers were left out of disaster aid programs following ice storms, record drought and a summer heat dome. Meanwhile, President Biden is launching a working group focused on droughts.

HOG AID

USDA launches pandemic aid hog market payment effort. USDA announced the launch of the Spot Market Hog Pandemic Program (SMHPP) to provide help to hog producers who sold animals through a negotiated sale from April 16, 2020, through Sept. 1, 2020, to address the reduction in market prices that occurred during that time period due to the pandemic. The agency said in a notice of funding availability published in the Federal Register that prior pandemic aid had not "adequately addressed" the impact to those selling hogs on a negotiated basis which it said the industry describes as "a cash or spot market sale."

USDA determined a single payment rate of $54 per head for SMHPP by calculating the average daily difference in the negotiated sales price during the timeframe covered to the daily five-year average for negotiated sales prices during April 16-Sept. 1 for years 2015 through 2019. That average daily difference was $77 and the $54 payment rate reflects the CFAP 2 payments of $23 per head.

Producers can file SMHPP applications Dec. 15-Feb. 25. Payments will be made on the number of hogs sold from April 16-Sept. 1, 2020, and will not be made on more than 10,000 head and will be issued shortly after SMHPP applications are approved… there is no payment limit on the aid. Up to $50 million has been allocated for the payments. The payments are not available to contract growers.

HAPPY HOLIDAYS

Happy Holidays! Our next issue comes Dec. 31. We wish you and your family a Merry Christmas and Happy New Year. As this letter shows, we value speaking to you and your various groups and listen closely to get your grass roots feedback.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

Dec. 17, 2021