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Dear Client: Washington, Dec. 3, 2021

New Omicron Covid variant…

Markets tumbled, but quickly recovered some of the major Nov. 26 losses when trading resumed Nov. 29.

More uncertainty in a very uncertain world.

COVID VARIANT

Variant could impact Federal Reserve decisions…

Markets are reassessing if rates will be hiked in 2022, as some thought before Omicron surfaced.

Vaccine shots and the booster should help confront the new variant, say experts. This will likely boost vaccine taking among some who have not yet acted.

USDA vaccination rate is lowest in federal gov't. Six of every seven USDA employees are partially or fully vaccinated against Covid-19. USDA expects more will get vaccinated in compliance with the federal mandate. But USDA's vaccination rate of 86.1% was the lowest among the 15 federal departments. Average for the federal workforce of more than 3.5 million people was 92%.

No rates yet for agencies within departments, but USDA's Farm Service Agency will likely show one of the lowest marks in breakdowns coming.

Gov't vaccine compliance

Department	Compliance
Agriculture	86.1%
Commerce	93.9%
Defense	93.4%
Education	95.0%
Energy	91.0%
HHS	96.4%
Homeland Security	88.9%
HUD	92.7%
Interior	88.3%
Justice	89.8%
Labor	93.3%
State	96.1%
Transportation	90.6%
Treasury	91.5%
Veterans Affairs	87.8%
EPA	92.1%

Percentage of agency employees covered by vaccination requirement with at least once dose.

Source: White House OMB

President Joe Biden set a Nov. 22 deadline for federal workers to be fully vaccinated, meaning two weeks after completing their inoculation regimen. Workers were deemed vaccinated if they received at least one dose; it reported a 96.5% compliance rate across the government, combining those vaccinated with workers who requested a medical or religious exemption. Some 9.5% of USDA workers have requested a waiver and 4.4% have not responded to the vaccination mandate. USDA lists a workforce of 92,000 people, including 7,000 non-federal employees who work in Farm Service Agency offices but who were hired through the farmer-elected committees that guide local operations.

Workers face discipline, up to dismissal from employment, if they refuse to be vaccinated or obtain a waiver. USDA said it would not pursue disciplinary action against an employee while a request for an exemption was pending. If a request is denied, the employee has two weeks to be vaccinated. If two shots are required, the employee has an additional six weeks to get the second dose.

Workers refusing vaccination will get a week of counseling about the vaccines and the potential consequences of noncompliance. An unpaid suspension from work would follow. After that, termination becomes possible. The process of firing a federal employee takes at least a month to complete. During that period, the employee is expected to continue working and comply with rules on wearing masks and being tested for Covid-19.

Disruptions in USDA meat inspection or office hours at USDA's local offices if a sufficient portion of workers rejected vaccination are major concerns being expressed.

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SUPPLY CHAIN U.S. export supply chains are choking on empty containers. Hundreds of thousands of boxes are filling marine terminals and truck yards across Southern California, the *Wall Street Journal* reported, tying up crucial cargo-handling space and adding to the gridlock that has gripped American distribution networks. The empties are a sign of the fractured state of supply chains, as shippers scramble to find scarce sea containers for goods even as storage sites are overflowing with boxes. However, the containers are in the wrong places for exporters on both sides of the Pacific. Shipping lines are prioritizing recovery of the empty containers and stacks are growing higher as operators from terminals to truckers cope with constrained capacity to manage them. Ocean operators typically send "sweeper" vessels to haul away excess empties, but few ships are available for that duty these days.

SHIPPING U.S. shippers struggling with supply-chain gridlock on the West Coast face new concerns in the coming year as dockworkers and marine terminals gird for talks on a new labor contract. The private companies that operate port facilities from Washington state to Southern California are due to begin negotiations next year on a multiyear agreement with the union representing 22,400 dockworkers to replace the contract that expires in July 2022, raising the potential for new turmoil over bargaining that has been highly contentious in previous years. The talks with the International Longshore and Warehouse Union, which happen about every six years, led to severe labor disruptions and shipping delays during the last cycle in 2014 and 2015.

The sides are already bracing for a battle. The employer group asked this month to extend the existing contract into 2023 because of the ongoing supply-chain congestion, but the labor groups quickly rejected that idea.

RAILROAD Mexico greenlights Canadian Pacific acquisition of Kansas City Southern. Canadian Pacific won regulatory approval in Mexico for its planned acquisition of Kansas City Southern. Meanwhile, U.S. rail regulators are telling Norfolk Southern to address shipper complaints of deteriorating service in recent weeks.

BBB Model projects higher BBB price tag than CBO estimates. The price tag for the Build Back Better (BBB) Act looks to be much higher than the around $1.75 trillion estimate released by the Congressional Budget Office (CBO) due to constrictions placed by Congress, according to the Penn Wharton Budget Model. The model found that the bill's provisions would spend $4.6 trillion if extended for a full 10 years, while the Committee for a Responsible Federal Budget set the figure at $4.9 trillion.

Senate vote on the BBB package is murky… most contacts signal it could come right before the chamber departs for Christmas. But other sources say it could be punted until 2022 if centrist Sen. Joe Manchin (D-W.Va.) insists on postponing the vote amid concerns about inflation and some of the spending and climate change items in the measure.

INPUT PRICES U.S. gov't being asked to help on surging fertilizer prices. Up for review at the International Trade Commission (ITC) is whether to pull back threatened tariffs on some countries' urea shipments to the U.S. Supply-chain snafus have many predicting some supply shortages ahead while many do not see much of a price decline soon. Some large-acreage corn producers are holding fertilizer options open until next year when they hope fertilizer prices are a lot lower and in better supply. Hope is not a plan.

Stakeholders are throwing stuff against the wall to see what might stick in setting fertilizer prices. Some farm groups as noted are asking to intervene in the ITC case. Some reports have surfaced that USDA is considering using the Commodity Credit Corporation (CCC), but we think that's unlikely. USDA Sec. Tom Vilsack was briefed on this and other input issues by the Ag Department's top economist. No other details are known.

There will be mounting pressure on the Dept. of Justice to look into anti-competitive practices given concentration in the domestic market. There is no silver bullet. Others recall how regulations and other policy moves ran a lot of fertilizer firms out of the U.S.

FOOD PRICES

Food price inflation to fall back to near 20-year average at grocery stores in 2022. Overall food prices, restaurant and grocery store prices that are above the 20-year average are set to post a second straight year of increases amid inflationary pressure, says USDA.

Overall food price inflation is forecast at 3.0% to 4.0% in 2021, with grocery store prices… food at home… up 2.5% to 3.5% and restaurant… food away from home… prices up 4.0% to 5.0%. Restaurant prices were the only overall category to be revised higher, previously having been forecast to increase by 3.5% to 4.5%.

Increases for 2021 are coming after similar boosts in 2020… overall food prices rose 3.4%, restaurant prices rose 3.4% and grocery store prices rose 3.5%. All of those levels are above the 20-year averages of 2.4% for all food prices, 2.8% for restaurant prices and 2.0% for grocery store prices.

If current prices hold… 2021 overall food price inflation and grocery price increases would be the highest since 2020… restaurant prices since 1990.

MARKETS

Corn: Demand and South American weather are in focus. U.S. corn export commitments for 2021-22 stand at 34.4 million tonnes, just behind the mark of 36.9 million tonnes at this point in 2020-21. With Crop Progress updates done for the 2021 crop, the pace of sales and shipments are the weekly markers now.

Soybeans: South America is one focus for markets as weather there for the crop could become important with La Niña prospects. Demand news also is key, with current U.S. export commitments in 2021-22 at 38.2 million tonnes, well behind the year-ago level of 51.9 million tonnes. Attention remains on China's actions on this front.

Wheat: U.S. winter wheat will enter dormancy in below-average condition. Spring weather remains key. With Russian exports limited, Europe is the primary global wheat seller. Demand for U.S. wheat is still sluggish... slowed by high freight rates.

Rice: U.S. rice exports for 2021-22 notched a marketing-year high of nearly 100,000 tonnes the week ended Nov. 18. Central American customers and Mexico remain the main buyers at this stage. It will take still-more business to help trim U.S. supplies.

Cotton: Prices remain lofty but that has not lessened interest from foreign buyers. China and Vietnam continue to be key customers, with many viewing the sales/shipments to Vietnam as almost a "proxy" of China. But others are also on the buyers' list, including Bangladesh as countries are looking outside of China for their textile/yarn supplies.

Hogs/pork: China's reduced appetite for U.S. pork continues, with export commitments through Nov. 18 at 400,682 tonnes. A respectable total, but it pales in comparison to last year when export commitments totaled 724,082 tonnes. That put China at the top of the list of U.S. customers at that point. But China's slowdown in purchases has moved the country into the No. 2 spot behind Mexico.

Cattle/beef: China's appetite for U.S. beef remains strong. Through Nov. 18, export commitments stood at 180,964 tonnes, good for No. 3 on the U.S. customer list, when they stood at just 58,037 tonnes at this point in 2020. Accumulated exports are already at 136,928 tonnes against 31,278 tonnes at this date in 2020.

Poultry/broilers: Higher feed costs continue amid a downturn in hatchability... chicks placed as a percent of lagged egg sets. Rates are 2.5 points below year-ago, suggesting productivity anomalies. But that has not yet created any supply disruptions.

Dairy: U.S. milk production in October was down 0.3% from year ago, with September's output revised to a flat result after an initial expansion of 0.2%. Cow numbers have continued to decline, falling by 14,000 from September to October. And milk per cow registered a third straight month of year-over-year declines in October, the first time that has happened in 20 years, reflecting increasing feed costs.

Transportation: Ocean freight rates continue to retreat but are still high. The Baltic Dry Index... basket of all dry bulk vessel sizes... fell 15% to a reading of 2,430 through November 17. But it still is running a hefty 118% above year-ago levels.

JOHN DEERE

Farm equipment maker Deere & Co. reported good quarterly earnings of $4.12 per share, beating the consensus estimate of $3.90, although revenue came in slightly below analyst's forecasts. Deere said solid demand for its products helped cushion the impact of a month-long worker strike. Deere & Co.'s non-union workers are getting more money, too. Following the end of a five-week-long strike by the United Auto Workers on Nov. 17 that resulted in pay bumps and enhanced retirement benefits for the union employees, the company announced that its salaried staff will receive 8% raises. "The future success of our company depends on our ability to retain and recruit the best talent in an increasingly competitive global marketplace," spokesperson Jennifer Hartmann said in a statement. "To do that, we're committed to putting every one of our employees in a better economic position."

FARMLAND VALUES

Cropland values surge by 15% in Midwest and Plains. Relatively high commodity prices and low interest rates fueled a 15% surge for farmland values in the Midwest and Plains in the third quarter, according to surveys of ag bankers by four regional Federal Reserve banks. "Alongside prospects for further strength in commodity markets, the outlook for farm finances and agricultural land values through the end of 2021 remained strong," said a summary of the surveys. "The value of unirrigated cropland increased by an average of about 15% across all participating districts," said the report, written by Kansas City Fed economists. It was the largest gain since 2013. The biggest increases were in Iowa, up 28%; Minnesota, up 26%; and South Dakota, up 23%, versus values in the third quarter 2020.

AG TRADE

USDA still forecasting record FY 2022 ag trade despite trimming export outlook. U.S. agricultural exports are now forecast at $175.5 bil. in fiscal year (FY) 2022, down from the August outlook for $177.5 bil., but it would still mark a record, according to USDA's Outlook for U.S. Agricultural Trade.

Imports are also seen at a new record, forecast to hit $165.0 bil., up from the August outlook for $159.5 billion. Prior records were set in FY 2021… $172.2 bil. for exports and $163.3 bil. for imports. Imports have been setting record marks nearly every year over the past decade.

FY 2022 forecasts would result in a trade surplus of $10.5 bil., down sharply from the prior forecast of $18.0 bil., but above the FY 2021 balance of $8.9 bil., ending what had been two years of rare trade deficits in FY 2020 and 2019.

Slower U.S. ag export outlook is due to declining soybean volume and value, with China a factor on that front. Even as U.S. wheat is expected to potentially see an uptick in business with Russia limiting exports. USDA noted, "U.S. wheat prices are elevated due to a drought-impacted crop resulting in tight stocks for hard red winter, spring, durum, and white wheat, which are forecast at their lowest levels since 2007-08." The soybean situation was a factor in USDA downgrading U.S. agricultural exports to China in FY 2022 by $3.0 bil. to a mark of $36.0 bil., but that would still be a record level of shipments to China.

U.S. ethanol exports are expected to set a record at $2.9 bil. in FY 2022, up $500 million from USDA's prior expectation.

FY 2022 livestock, poultry and dairy exports are forecast up $1.9 bil. to $38.7 billion on gains across all major commodities except pork.

As for exports, results ahead are key. Typically, U.S. agricultural exports register some of their strongest marks as each FY begins. If that does not unfold as FY 2022 starts, that could make meeting the projected record levels for shipments difficult.

Best regards,

The Ag Letter Editors

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