

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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A look at key issues that unfolded during 2021 and how some of those topics will unfold in 2022.

2021 & 2022
ISSUES

Covid-19: It's still with us and will continue with hopes it will eventually get to the endemic stage. But late-year events saw the Omicron variant disrupting airline flights and boosting Covid cases in the U.S. and around the globe.

Supply-chain woes: The logistical snafus linger but are showing signs of progress, though it will still take time to get back to whatever normal will be ahead.

Fertilizer price surge: This is a spinoff of supply-chain issues. And it's not limited to this country as farmers around the world scramble for inputs. This will linger well into 2022 based on prior fertilizer runups.

Geopolitical concerns: Russian troops along the Ukraine border, China's focus on Taiwan and various issues with Iran and North Korea all can whipsaw ag markets ahead. Diplomacy is underway with Russia and China.

Build Back Better (BBB): President Joe Biden's signature legislation is not dead, despite reports to the contrary. We see Democrats eventually clearing a much scaled-back version of the social spending and climate change measure. It could take several weeks into 2022.

What's not in BBB: Sometimes it is more important what is not in a bill than what a measure contains. The likely BBB, whenever the issue is settled, will not include any changes to stepped-up basis (nor a transfer tax), no changes to federal estate tax exemptions, no major changes to capital gains taxes and no legislative change to like-kind farmland exchanges.

Commodity prices: A fledgling bull market for corn, soybeans and wheat is underway. Hog prices are finally rising with lower-than-expected U.S. hog numbers, despite less Chinese demand for U.S. pork. Cattle numbers are still declining and prices should rise.

U.S. farm income: The pessimists at this time last year were wrong about declining U.S. net and cash farm income, and they are back at it again for 2022, with some more evidence than last year... namely surging input prices.

Weather and disaster aid: Recent derecho winds caused havoc in the Plains and Midwest and signal weather extremes are becoming the norm. Impacted producers, including livestock and dairy, await USDA rules on 2020 and 2021 WHIP+ regulations.

PREDICTIONS

Midterm elections: Election sources see the GOP winning 40 or more net seats in the House to win back control. They see a slight GOP win in the Senate, at 53-47.

Acreage battle: Markets could rally in early 2022 to woo enough corn acres despite steep input prices.

China: If China takes over Taiwan, it would be a major Black Swan event impacting the U.S. ag sector as Biden and Congress would react. Our contacts say it's a matter of time.

Russia: Looks like enough give on all sides is reducing the chance of a Russian invasion of Ukraine. Should that occur, markets would rise for corn initially as Ukraine supplies China with a chunk of corn... no lasting impact, though.

Source: Ag Letter editors

Discord in Washington: Bitter partisanship in the U.S. House shifted into overdrive after the Jan. 6, 2020, attack on the Capitol, with people of all political stripes saying it has become a deeply unpleasant place to work. It will take time for civility to return.

New farm bill and midterm elections: Expect new farm bill hearings to unfold later in 2022 even though Republicans on the House Ag Committee think their party will regain control following midterm elections. November elections will be a close call in the Senate. Of note is the shrinking farm bill baseline for ag as commodity prices rebound. Meanwhile, there has been a major boost in the baseline for SNAP/food stamps as USDA added \$250 bil. to the program in August. Both are complicating factors for the next farm bill.

Climate change and ag: The BBB measure includes huge funding for climate change initiatives. For agriculture, we think production practices ahead will be the key program. Look for USDA Sec. Tom Vilsack to tap the Commodity Credit Corporation (CCC) for climate change programs... but only if Congress boosts overall CCC funding to make sure there is adequate spending for traditional farm program payments.

RFS: Biofuel proponents are not happy with EPA's handling of volume requirements. At least the agency announced a 15 bil. gallon mandate for 2022 corn-based ethanol. Keys ahead: how many small refinery exemption (SRE) waivers EPA allows and what's in store for the RFS beyond 2022... Congress will also look into this topic.

Renewable diesel: EPA recently raised the food-vs.-fuel issue, asking for public comments. But interest in renewable diesel is rising, with a major increase in plant capacity.

USDA announced \$800 mil. in help for the ethanol industry, including \$700 mil. under the Biofuel Producer Program (BPP)... authorized by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Signup started via USDA's Rural Development area earlier this month and will run through Feb. 11. There is also \$100 mil. in grants for biofuels infrastructure, such as blender pumps which ensure biofuels have greater availability in the retail market. Signup for the grants will be announced in coming months.

Dicamba: Farm groups are now uncertain regarding how EPA will handle the use of dicamba, with some thinking EPA wants to stymie use. EPA's treatment of crop protection products are important tools for no-till and cover crop systems.

New trade agreements: U.S. farm groups are pressing the Biden administration to jumpstart some new initiatives, citing other countries inking new trade accords. The White House has not yet moved to resurrect Trade Promotion Authority (TPA/fast track), which allows Congress to vote on new trade agreements via an up-or-down vote without amendments. The Biden admin. prefers trade accords that don't need congressional approval.

Infrastructure: One of the bipartisan legislative successes this year was passage of the Bipartisan Infrastructure Framework (BIF). Billions of dollars are coming to rural America, including lots of funding for high-speed internet. State officials will have a lot to say about timing and implementation details.

Competition: As prices for products rose, so did the Biden administration's interest in antitrust enforcement. Biden urged USDA to investigate large meatpackers that control a major share of meat trade, accusing them of raising prices, underpaying farmers... and tripling profit margins during the pandemic. The North American Meat Institute, an industry lobbying group, accused the Biden team of cherry-picking economic data. USDA wants to expand meat processing and is in the process of distributing \$500 mil. to help seed new entrants in the meatpacking industries. In June, USDA said it was beginning to strengthen enforcement of the Packers and Stockyards Act.

Focus on the Fed remains on timing of initial rate rise. Economic data continues to indicate an expanding U.S. economy with higher prices being felt by businesses and consumers alike. The inflation situation led the Fed to speed up its tapering of bond purchases, which will now wrap up in March. Some Fed officials have signaled that if the economy continues to unfold as they currently expect, that could mean the first increase in the target range for the Fed funds rate would come soon after. The next Federal Open Market Committee (FOMC) meeting after March is May 3-4.

In 2022 there will be a new batch of voters on the FOMC. St. Louis Fed President James Bullard, Kansas City Fed President Esther George, Cleveland Fed President Loretta Mester and interim Boston Fed President Kenneth Montgomery will replace Richmond Fed President Thomas Barkin, Atlanta Fed President Raphael Bostic, San Francisco Fed President Mary Daly and Chicago Fed President Charles Evans as voters for 2022, putting them in position along with Fed governors of deciding when to boost interest rates. This will keep more attention on the remarks from the new voters ahead of each meeting.

Corn: Attention remains on demand news with solid export business, but domestic demand is also impressive. Demand for corn to make ethanol continues to run ahead of expectations, keeping bids at ethanol plants very strong as the year wound down.

Soybeans: Dryness in South America is a key factor keeping markets bullish as 2022 unfolds. Soon focus will be on U.S. planting prospects for 2022 with soybean acreage expected to expand with costs on the rise for corn production.

Wheat: Demand for U.S.-origin wheat amid supply concerns and export restrictions in other areas of the world has not materialized. But the wheat market continues to find some support in dry conditions in U.S. Plains HRW wheat areas that could temper U.S. supplies without a solid spring. Recent derecho winds uprooted some plantings.

Rice: Demand for U.S. rice continues to be erratic but has been able to soak up some supply. Southeast Asia continues to add supply from the ongoing harvest. Continued logistics issues and lack of freight capacity have dampened any downward movement.

Cotton: China continues to push back against U.S. law that seeks to halt products produced in Xinjiang from entering commerce channels. Xinjiang is China's main cotton production area. While complaining about U.S. actions, China has subtly shifted some textile operations to bring in cotton, process it and export the textile/yarn to avoid the sanctions.

Sugar: Responding to high sugar prices, USDA raised by 4% the allotment of sugar allowed on the domestic market from U.S. sources and Mexican exports.

Hogs/pork: The Quarterly Hogs & Pigs report showed the U.S. hog herd was 4% smaller than year-ago, a greater contraction than traders expected but in line with what producers were telling us for months. Nearly all categories came in on the bullish side of the average pre-report estimates. That should keep some support under the market even as China continues to temper its purchases of U.S. pork.

Cattle/beef: Futures will see impacts ahead as funds rebalance their portfolios. Cattle supplies in feedlots remained about as expected in the most recent update from USDA. Cattle weights are also heading up.

Poultry/broilers: The industry continues to grapple with a hatchability issue even as some U.S. broiler processors are signaling the breed issue that has been a factor on this front has been addressed. But it's not clear that "fix" has worked its way through the entire production system and will keep this as an issue in early 2022.

Dairy: Cow slaughter may be on the decline, a key factor which has limited output in recent weeks and months. With tempered output, that could provide some support for milk and dairy product prices... more than usually is the case.

Transportation: More of the upper Mississippi River will be shut off to barge traffic as cold weather descends on the region. Rail activity will be more of a focus as will be moving hefty quantities of corn sold to foreign buyers into export locations.

ISSUES

Covid-19 aid: USDA in April doled out pandemic aid to agriculture, including dairy donations, support for textile mills and help to specialty crops, but pulled the plug on the Farmers to Families Food Box program... renaming and changing it. USDA changed the Quality Loss Assistance program to the detriment of several commodities. USDA also expanded CRP acreage to boost enrollment as part of its climate initiative.

In July, USDA announced another tranche of Covid aid, this time to livestock producers who suffered losses due to lack of processing.

In August, a bipartisan group of lawmakers requested urgent action on long-delayed Covid relief to hog producers, which USDA eventually announced with changes some hog producers criticized.

Shippers: The Biden administration in May moved forward on reducing emissions from shippers despite growing supply chain problems involving transportation and shipping challenges.

Clean Air Act... WOTUS: EPA pulled Trump-era cost-benefit analysis requirements in what many viewed as a precursor to the agency's rewriting of Clean Air Act regs to reduce greenhouse gas and methane emissions. EPA has also announced it will release language regarding a new Waters of the U.S. (WOTUS) rule in 2022.

Slaughterhouse speed lines: USDA in May declined to appeal a court ruling against Trump-era accelerated speed line levels. A trial program is now underway to check the safety of a boost line speeds.

Debt relief for minority producers got hung up in federal court on constitutional grounds while House and Senate Democratic lawmakers filed new legislation to track farm payments by gender and race and to provide debt relief to small producers, viewing this as a race-neutral means of providing debt relief to minority producers as well as to other smaller-sized operations.

Cover crops: In June, USDA's Risk Management Agency (RMA) announced a retroactive payment for the planting of cover crops.

Immigration reform: A House panel in September included immigration in the "human infrastructure" (BBB) package but the Senate parliamentarian ruled against it under the Byrd Rule. Democrats then tried several other ways to include immigration reform, all of which did not pass muster with the parliamentarian. No major changes.

More use of CCC funds: USDA in October made a big announcement that it will use CCC funds to combat African swine fever, address ongoing drought and supply chain issues at the ports and fund school nutrition and climate initiatives. Greater use of tapping CCC for funding is a trend our sources see continuing.

Crop insurance: "Do no harm" is still the ag sector's mantra for lawmakers and the White House. Some want USDA's RMA to expand programs to cover more crops and livestock, perhaps reducing the need for WHIP+ programs ahead.

Happy New Year! Our next issue comes Jan. 14. We wish you and your family a safe and prosperous 2022... Happy New Year.

HAPPY
NEW YEAR

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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