

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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USDA Sec. Tom Vilsack has a problem in mind...  
Surging food prices.

FOOD  
PRICES

Avocado price surge is one example Vilsack uses to explain escalating food prices. He said a recent spike in avocado prices was an example of businesses "taking advantage" of the Covid pandemic and supply-chain disruptions to push up food costs.

The U.S. restarted imports of Mexican avocados this week, ending a week-long suspension triggered by a threat against a USDA food inspector. Prices surged during the ban. "I would raise some serious questions about that cost increase given the fact it was obvious this was a short-term situation," he said in an interview in Dubai by *Bloomberg*. "There's no justification for that. None."

Food prices have soared globally as economies recover from the pandemic. Producers and transporters are struggling to cope with ramped up demand, leading to huge delays moving goods through ports.

Food costs have contributed to U.S. inflation accelerating to 7.5%, putting pressure on President Joe Biden ahead of November's mid-term elections.

But most Americans scoff at the 7.5% figure, saying their inflation is in the double-digit area.

The economic rebound and logistical snarls are causing cost increases, Vilsack admits, but not all of them are justified. "The question is whether all those increases are directly correlated to those causes or whether people are taking advantage," he said. "There are some comments I've read... attributed to some folks in the agribusiness world... where they're suggesting or at least intimating that this is an opportunity to raise prices beyond what is necessary to deal with supply-chain challenges they may face."

Food prices should start to fall, Vilsack predicted, as the U.S. economy normalizes and supply problems are resolved, he said. "*If they come down, will they come down commensurate with how much they went up?*" he asked. "If they don't, that would suggest there's something more afoot here. People should be asking those questions."

But USDA has slow-walked its forecasts for rising food prices ever since last year... and most think those forecasts will keep rising.

Food prices will likely keep rising generally, industry analysts say, as long as logistical snafus and their cost for labor and other key components keep rising.

Some reasons analysts give for likely further food price hikes:

Hog and cattle numbers are shrinking and will further decline...

Soybeans, corn, wheat, cotton and hogs are posting multiple-year highs... with market tops uncertain at this time.

## DOJ, FBI LOOKING AT AG

Vilsack last week said he wants the Dept. of Justice (DOJ) to ensure seed companies and other input suppliers are not using their market power and current conditions to raise prices unfairly. If input companies cannot justify current pricing, "then shame on anybody who's trying to take advantage of this circumstance."

He acknowledged the volume of challenges weighing on the ag sector, mentioning supply chains, animal disease threats and rising input costs, but stressed his confidence in the "capacity of American agriculture" to overcome them.

Vilsack got a quick response. DOJ and the FBI announced a new initiative to look at finding companies that are exploiting supply chain disruptions in the U.S. to make increased profits, violating U.S. antitrust laws.

Source: *Ag Letter* editors, DOJ

## ENERGY

The U.S. is now energy independent. U.S. petroleum production exceeded consumption in 2020, and that balance was mostly maintained throughout 2021, according to the Energy Information Administration. The country can thank cheap shale gas and an upturn in oil production, such as in the Gulf. And to make matters even better, more than half of U.S. oil imports come from Canada. That's a lot of oil solidarity that might insulate consumers against a potential crisis, say observers.

FARMS IN  
U.S.

Slightly fewer U.S. farms. There were 2.012 mil. farms covering 895.3 mil. acres in the U.S. in 2021, a drop of 6,950 farms and 1.3 mil. acres from the previous year, based on the definition that a farm produces and sells... or could produce and sell... \$1,000 a year in agricultural products.

The definition of a farm does not give the full picture of the U.S. ag sector. Reason: Around 15% of farms produce around 85% of production.

## CONGRESS

Rep. Hagedorn dies. Second-term Minnesota Rep. Jim Hagedorn, a Republican member of the House Agriculture Committee, has died of cancer. His widow, Jennifer Carnahan, the former state Republican chair, is mentioned as a possible candidate in the special election to fill the seat.

## MLP

Mandatory livestock price reporting will be part of an omnibus spending bill. Congress has until March 11 to reach agreement on a spending package for fiscal year 2022, which began Oct. 1. The short-term funding bill approved by Congress is keeping USDA's MLP reporting system in operation while lawmakers continue to work on a multiyear reauthorization as part of a coming omnibus spending measure.

BLACK  
FARMERS

Black farmers fear foreclosure as debt relief remains frozen. Lawsuits from white farmers have blocked \$4 billion of pandemic aid that was allocated to Black farmers in the American Rescue Plan. USDA sent and then countermanded letters warning Black farmers of potential foreclosure on debts that were eligible for forgiveness through a program that is tied up in court.

USDA continues to push a revised debt forgiveness measure via a coming replacement for the failed Build Back Better bill.

SOTU  
ADDRESS

President Biden will give his State of the Union (SOTU) address March 1. Observers say the president could take the opportunity to adjust his Covid policy along the lines of the United Kingdom, which this week lifted all remaining Covid-19 restrictions, including a legal requirement that those infected with the virus self-isolate, as Prime Minister Boris Johnson looks to fully reopen the British economy and society two years after the pandemic hit. Johnson said that with the virus on the wane, government-mandated rules are no longer necessary to stop the spread of Covid-19.

Biden will also focus on his push for carbon mitigation programs and will likely say agriculture will play a big role in that effort. Congress wants to fund climate change language by around \$400 bil. in a revised... and likely newly named... Build Back Better measure. Vilsack has said carbon mitigation could be agriculture's next revenue stream. But farmers know payouts under any such program must be higher than initial signals.

The Russia/Ukraine situation will also be a key SOTU address topic, with the latest developments the most important of his address... *see page four for more on this.*

Biden will attempt to soothe a worried nation faced with rising inflation, other potential major geopolitical events and rising interest rates once the Fed starts hiking them in March while also beginning to reduce the Fed stimulus, upping fears of a potential downturn in the U.S.... and perhaps world... economy later this year.

The president will likely stress the already passed infrastructure measure among the positive things his administration is doing. Key to that effort is how the huge funding is implemented at the state level.

Russia and Ukraine is not the only international event of note...

Canadian premier sued Prime Minister Justin Trudeau and the gov't over the “unjustified” Emergencies Act used to halt the Canadian trucker blockades of key bridges and roads in Ottawa over mandated vaccines. Alberta’s premier, Jason Kenney, filed suit against Trudeau and the nation’s federal government, citing the nature of the Emergencies Act as “unjustified in the circumstances,” according to an announcement. A similar U.S. trucker caravan is heading to Washington, D.C.

The Iran deal. Negotiators enter another crunch week in Vienna, with an agreement to revive the 2015 Iran nuclear deal reportedly days away. Any deal will hinge on whether the United States proves “its will” to lift major sanctions, Iranian President Ebrahim Raisi said on Feb. 21. Key issues still outstanding in negotiations include the U.S. designation of the Iranian Revolutionary Guard Corps as a terrorist group, as well as assurances that the United States won’t later renege on the deal.

## MARKETS

Corn: Markets are focused on three keys... Black Sea situation, 2022 acreage prospects and South American weather. The global uncertainties linked to the Black Sea continue to ebb and flow in markets with each development. That typically is supporting prices which is creating a potential dynamic for swing acres between corn and soybeans. Any hiccups in Ukraine’s corn exports could also steer business to the U.S.

Soybeans: South American weather is the main driver, with production in Brazil, Argentina and Paraguay sharply reduced due to unfavorable weather. That is continuing to prompt buyers to turn to U.S. soybeans for old- and new-crop delivery. The rise in corn prices will also give soybeans a reason to rally to attract new plantings.

Wheat: Probably the market most directly affected by the Black Sea situation given that Russia and Ukraine combined account for about 30% of global wheat shipments. But U.S. wheat is not competitive on the world market and price increases linked to the Black Sea tensions only exacerbate that situation.

Rice: Focus is on export demand which has been somewhat erratic. Rice continues to be buffeted by the Black Sea situation even though the U.S. is not a player on the rice side in the region. Supply constraints in South America due to unfavorable weather are needed to spark much of a rally in rough rice futures.

Cotton: Prices remain lofty as planting time gets closer. That will be a key in southern/Delta planting decisions even as soybean prices in particular could offer growers some positive returns. It would take a sudden plummet in cotton prices before the crop could see major acreage shift toward soybeans for the 2022 growing season.

Hogs/pork: Lean hog futures continue to rally with cash markets also moving higher. Futures are signaling tight hog supplies, keeping breakevens solid for hog producers. Packer margins are also still positive with expectations for tightening supplies the balance of 2022.

Cattle/beef: Fed cattle prices continue to edge higher and the weekly average in mid-February was at the highest mark in more than four years. That has kept live cattle futures from faltering as slaughter supplies have moved above year-ago levels. Higher carcass weights are managing to keep beef pipeline supplies stocked.

Poultry/broilers: Situation with highly pathogenic avian influenza (HPAI) is the main factor for broilers and turkeys with it being found in both types of commercial flocks. While limited so far, any expansion could broaden trade-related blockages. Regionalized trade restrictions help, but if the spread continues to encompass more states, that will create additional export headwinds while production will be affected.

Dairy: Some easing in prices for butter, nonfat dry milk and whey have been seen, but the overall tone for dairy product markets remains in an upward trajectory. With milk production expected to move higher in the second and third quarters of the year, that could result in prices for milk and products falling during that timeframe, or at the very least keep a lid on price rallies.

Russia's recognizing the independence of Ukraine separatist regions is seen as the first step of several more ahead.

Biden sanctions key off whether there has been a Russian invasion. Initial sanctions were not as severe as Biden and a host of other administration officials threatened prior to Putin's latest moves. But a national security adviser says Russia's deployment of troops in Ukraine is "an invasion" and that more sanctions will come.

But Germany got aggressive as it halted certification of the Nord Stream 2 pipeline.

"Russia is used to sanctions," Foreign Minister Sergey Lavrov boasted. Putin built his country's foreign currency reserves and met with Chinese leader Xi Jinping in Beijing to make sure trade ties with China would continue... and accelerate.

Lawmakers from both U.S. political parties want Biden to be more assertive with Russia. Sen. Lindsey Graham (R-S.C.) said Putin's move "should immediately be met with forceful sanctions to destroy the ruble and crush the Russian oil and gas sector." Sen. Chris Coons (D-Del.), a top Biden ally in the upper chamber, said in a statement that "the time for taking action to impose significant costs on President Putin and the Kremlin starts now."

Sizing up Putin: Former acting CIA Director John McLaughlin: "Putin has choreographed this with the hope that we and the Europeans will debate whether this is an 'invasion' or not. And hoping that throws us enough off balance that he will pay a minimal price for this first slice of salami."

Market reaction: Oil, natural gas and agricultural prices rose as escalating tensions threatened to disrupt flows of natural resources from Eastern Europe to world markets. Brent crude, the benchmark in international energy markets, climbed to \$99.50 a barrel, the highest level since 2014.

European energy prices soared because it buys much of its natural gas from Russia. Europe met 38% of its gas needs with imports from Russia in 2020, according to the most recent official data. Prices in northwest Europe are almost five times as high as they were a year ago, in part because state energy supplier Gazprom has throttled exports in recent months. Putin told a gas conference that the country will continue to provide uninterrupted supplies of gas, according to a state news agency.

Other prices rising, too. Prices for aluminum, nickel and wheat, all produced in large quantities in Russia or Ukraine, rose too. Together, Russia and Ukraine account for a quarter of global trade in wheat, and concerns about Black Sea shipment disruptions could send soaring food costs even higher.

What few know: Russia provides 90% of neon gas to the U.S.... a critical mineral used in the production of semiconductors.

Key unknown: Will Putin order a full-on invasion in Ukraine... a scenario that could ignite fighting reminiscent of World War II... or stop at the borders of the separatist enclaves, which make up roughly a third of the eastern Ukrainian region known as the Donbas.

Putin in an address to his nation longed for a return of the Soviet Union. That would mean he wants all of Ukraine and then will set his sights on other former Soviet republics.

Bottom line: Major geopolitical issues ahead... if a cyberware unfolds, huge impacts, including for the satellite-intensive U.S. ag sector.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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