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Dear Client: Washington, March 11, 2022

War markets are here, big time… Russia's invasion of Ukraine.

Oil and grains are surging, while equity markets are plunging here and around the world.

What traders and analysts tell us…

WAR MARKETS

Key unknown: How long will war last?

Timing will determine tops of ag and oil markets.

Most say months, not weeks… maybe longer.

Tight U.S. corn, soybean and world wheat situation continuing into the 2023-24 season.

Another unknown: Ukraine plantings. Can they get their crops… wheat, corn, sunseed, barley in particular… planted and if so, *how much?*

Some are taking production levels down by 50%… for now. That means more potential exports for the U.S.

Perspective: Ukraine's planting window is about the same as the U.S.… so there is still time. From a timing issue, the wheat in Ukraine should be top-dressed now; barley plantings would start in around 30 days, corn in 30-45 days.

Bottom line: Ukraine yields will suffer.

Potential chaos in Middle East, northern Africa should food become scarce… logistics and prices… resulting in potential revolts by their people.

Global food prices already at all-time high. Global food prices as measured by the U.N. Food and Agriculture Organization (FAO) increased 3.9% in February to an all-time high and were 24.1% above year-ago. Only sugar prices declined. The bulk of impacts from the Russia/Ukraine crisis won't be reflected until next month.

A LOOK AT THE CRP

- USDA wants 25.5 mil. acres in CRP this year.
- CRP exit costs… cover must be destroyed with chemicals or tillage.
- Those with contracts expiring Sept. 30 can destroy cover on CRP acres before contract expires starting July 1 in the year the contract expires. Must have approved conservation plan… cannot destroy cover during primary nesting season (varies) and annual CRP payment reduced from date of cover destruction through Sept. 30.
- CRP acres need extra fertilizer or nitrogen applied.
- 22.1 mil. acres in CRP. Contracts on 4 mil. acres expire Sept. 30.
- General CRP signup underway ends March 11 and contracts start Oct. 1… just 25,565 acres enrolled via continuous signup. CRP Grasslands signup runs April 4-May 13.
- With 4 mil. acres expiring Sept. 30... with no other changes, that would put CRP acres at 18 million. To meet USDA's "goal" of 25.5 mil., would mean 7.5 mil. acres must be enrolled via general signup, CRP Grasslands or continuous signup… a tall order.

Source: Ag Letter editors, USDA

Regarding infrastructure and shipping logistics… key issue is the infrastructure and export facilities, getting the mines out of the ports, who is going to own the grain and get paid and expected long delays in shipping, etc.

Potential U.S. gov't policy responses have surfaced.

Price controls coming? Most say that would create more problems.

Renewable Fuel Standard (RFS)… Some wonder if Biden administration sees RFS as a "grain reserve" that would allow more corn onto the market. If waivers are granted, some say that resurrects the food versus fuel issue and becomes a big cap on biofuels.

Conservation Reserve Program (CRP)… Recent market chatter said the Biden administration could look to the CRP for possible more production of wheat and corn. But most note that would take time while White House says this is not under review.

Fear: Russia could implement cyberattacks and ag, food and water bioterrorism.

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WORLD BOARD A note about USDA's World Board and its supply/demand report (WASDE) released March 9… *highlights in box on page three.*

World Board is non-political and independent.

It does not predict policy nor provide policy advice to personnel making decisions.

RUSSIA ENERGY Most energy products Russia sends to the U.S. are not crude, but unfinished oils or heavy oil that refiners use for blending purposes. Refiners can find substitutes for heavy oil from places like Mexico, Ecuador and Colombia, according to Ben Cahill, senior fellow at the energy program of the Center for Strategic and International Studies.

U.S. ECONOMY History suggests recession probable. Historically, a surge in crude oil prices of this magnitude ended U.S. economic expansions and tipped the U.S. economy into recession, according to Pictet Asset Management. In the past 50 years, every time oil prices, adjusted for inflation, rose 50% above trend, a recession followed, data from Luca Paolini, chief strategist at Pictet, shows. Brent, the international benchmark for prices, has rallied more than 50% this year to decade highs. West Texas Intermediate, the U.S. gauge, has climbed nearly 50% in 2022.

INPUT COSTS Does USDA know how difficult it is in the countryside in terms of input costs and input availability? That's what farmers are asking. Crop protection is broadly triple the cost of last year and many distributors just don't have product available. Some have noted co-ops are having loads of herbicide completely canceled.

Russia said it could suspend fertilizer exports. Russia is one of the world's largest suppliers of fertilizers such as potash and nitrogen. Farmers and consumers will bear the cost of any prolonged shortage.

Brazil imports 80% of its fertilizer, and has engaged in diplomacy by striking deals with Iran and Russia to maintain fertilizer flows. To reduce the ag sector's dependence on imports, the gov't has also developed a National Fertilizer Plan, though implementation is expected to take decades.

CHINA ECONOMY China wants to expand its economy, labeling stability as its "top priority." This came via the National People's Congress. The annual gov't work report did not even mention Russia's invasion of Ukraine, suggesting China could weather the situation.

Beijing is calling for heavy government spending and lending. Social welfare and education outlays are both set to increase about 10% this year. China's military budget will grow by 7.1% to about $229 billion… suggesting Beijing is preparing for an increasingly dangerous world.

China wants economic expansion of around 5.5%… lower than any annual target since China began setting such benchmarks in 1994.

TARIFFS U.S. is reviewing tariffs on $300 bil. of China imports. The review is on the duties first imposed by the Trump administration in July 2018. The review is of the first group of tariffs on more than $300 bil. in Chinese imports needed to prevent their expiration, a process likely to bring new scrutiny of their effectiveness as inflation runs at a four-decade high. The evaluation, officially known as a "review of necessity," so far has attracted little attention. It relates to Section 301 of the Trade Act of 1974.

Law states that the tariffs expire four years after they were imposed, unless the U.S. Trade Representative's office analyzes their effectiveness and consequences. The review needs to happen within 60 days of their potential end, which is July 6 for the first group of $34 bil. in Chinese goods, with the majority set to expire in the following months.

Biden would be open to charges of being soft on China if he got nothing in return… an accusation already made by some Republicans in Congress like Sen. Marco Rubio (R-Fla.). The AFL-CIO, the biggest U.S. labor federation and a key Democratic interest group, also wants the tariffs to stay in place until China changes its policies.

Also, the U.S. is closely watching China's actions on Russia's invasion of Ukraine.

WASDE

Russia/Ukraine impact on March WASDE Report... USDA included the following message at the top of this month's report: "NOTE: Russia's recent military action in Ukraine significantly increased the uncertainty of agricultural supply and demand conditions in the region and globally. The March WASDE represents an initial assessment of the short-term impacts as a result of this action."

CORN: U.S. ending stocks down 100 mil. bu. from last month to 1.44 bil. bu. USDA increased corn-for-ethanol use by 25 mil. bu. and hiked exports by 75 mil. bu., "reflecting expectations of sharply lower exports from Ukraine." Global ending stocks were cut 1.25 mil. tonnes (49 mil. bu.).

BEANS: U.S. ending stocks down 40 mil. bu. from last month to 285 mil. bu. USDA raised exports by 40 mil. bu. due to reduced South American production & shipments.

WHEAT: U.S. ending stocks unexpectedly up 5 mil. bu. from last month to 653 mil. bu. USDA cut projected exports by 10 million bu., despite Black Sea shipment questions. Global ending stocks raised 3.3 mil. tonnes (121 mil. bu.).

COTTON: U.S. ending stocks unchanged at 3.5 mil. bales. No supply/demand changes.

MARKETS

Corn: Russia's invasion of Ukraine has affected a host of global markets... including corn... given Ukraine's role as a key exporter of corn to some global buyers. With those supplies effectively shut off from the market, that puts more attention on supplies elsewhere, including the U.S.

Soybeans: Soyoil futures have been affected by the conflict due to Russia and Ukraine accounting for a combined roughly 80% of global sunflower oil trade. That has pushed soyoil futures to record highs and bolstered soybean prices.

Wheat: The fact Russia and Ukraine account for 30% of global wheat trade has directly impacted global wheat markets. Some U.S. wheat futures prices rose 40% during the week ended March 4. Some cargoes are still moving out of Russia, but not a lot. That will force key importers to look to Europe and other places. U.S. wheat remains pricey by global standards, but will likely pick up some additional business.

Rice: Futures have found support in expectations that lofty corn and wheat prices will send global buyers into the market for other grains like rice. Prices are expected to continue pushing higher as long as the conflict in Ukraine keeps going. Dry conditions in South America are also a supportive factor.

Cotton: Futures have been affected by the Russia/Ukraine situation, mostly as it pertains to global trade flows and on the potential for the Russian action to affect the global economy. Even as prices have eased slightly, they remain elevated.

Hogs/pork: The correction lower in lean hog futures increased rather sharply on March 4. The recent rally in the cash hog market stalled and is showing signs of heading lower on a late-winter pullback. Expect extreme volatility in the grain markets which could support elevated breakevens for U.S. hog producers throughout 2022.

Cattle/beef: Live and feeder cattle futures and the CME feeder cattle index all showed weakness recently as the complex resets. Developments in grains... primarily corn... continue to weigh heavily on the complex. Significant trend changes are occurring in both the live and feeder futures markets via direction and spreads.

Poultry/broilers: Confirmation of highly pathogenic avian influenza continues to expand in the U.S. with roughly 1.9 mil. birds affected by end of the first week in March. The trade restrictions linked to the outbreak are still not substantial, but continue to expand. Regionalization agreements have kept many trading partners from blocking all U.S. poultry exports.

Dairy: The Russia/Ukraine situation has impacted a limited amount of world dairy trade, with Europe seeing some impact given its proximity to the two countries. Production issues across major exporters mean that any displaced supplies will likely find a home.

Transportation: Key issue: shipping constraints caused by the Russian war with Ukraine. Shipping costs and insurance rates are rising as expected. Meanwhile, focus in the U.S. is whether fertilizer can be found and delivered to U.S. farmers.

INFLATION Why inflation can really hurt. Inflation becomes a problem when prices continue to rise while wages stagnate. The *New York Times* notes that's what happened in the 1970s and is threatening to happen again. Inflation has been stoked by supply-chain problems during the pandemic, and "now Russia's invasion of Ukraine may prolong supply-chain issues and push up energy costs. This persistent inflation could start to hit economic growth, an important factor underlying pay packages and investment gains."

But Nobel-winning economist Joseph Stiglitz disagrees. "We are not facing an inflation crisis," he said during a panel discussion hosted by the Center for Economic and Policy Research, a liberal-leaning think tank, arguing that the economy is "not likely to have the type of wage-price inflation that we had in the 1970s."

FUNDS Commodity funds draw interest. Investors are raising bets that the invasion of Ukraine and sanctions on Russia will further fuel an already-hot commodities rally. Wheat, corn and soybeans have surged and aluminum and nickel have jumped to their highest levels in over a decade. Commodity mutual funds and exchange-traded funds report net inflows for the eighth consecutive week, according to data from Refinitiv Lipper. That marks the longest streak since a 23-week run that ended in June 2021. Inflows for the week ended March 2, at $867 mil., were a record high, according to data going back to 2011.

"People are looking for a way to get out of inflation's impact, and commodities really look like a good hedge," said Hakan Kaya, commodity portfolio manager at Neuberger Berman, whose firm has increased exposure across commodities from energy to livestock and agriculture in 2022.

FERTILIZER Potential Canadian strike important for fertilizer market. Nutrien, the world's biggest crop-nutrient producer, is asking the Canadian government to intervene and halt a potential strike at one of the nation's largest railways... because the disruption could potentially lead to smaller harvests.

Workers at Canadian Pacific Railway Ltd. voted to go on strike March 16 if a collective bargaining agreement isn't reached, according to their union. That would impact Nutrien's ability to move potash, nitrogen and other crop chemicals to retail locations across Canada just ahead of spring planting, the company said. "The global food supply is already stretched and cannot afford further negative impacts at this time," the company said. "We would hope that the Canadian government will consider intervening to avert another transportation crisis."

EU AG POLICY European Commission now rethinking Farm-to-Fork policy in wake of Ukraine situation... to make sure European Union (EU) food security is maintained. Several member states raised questions about ensuring food supplies and food sovereignty in Europe. EU Agriculture Commissioner Janusz Wojciechowski said, "If food security is endangered, then we need to have another look at the [F2F] objectives and possibly correct them." However, he said the EU did not want to "throw away" the F2F strategy.

GREEN? Something happened that hasn't occurred for the Ag Letter in 93 years... We could not find the usual, green-colored paper we have used all these years... it's not easy being green.

Result: We picked the paper color you are seeing... a sign of the times.

But like all the years before, we won't color what you need to hear... especially in the volatile times we live in today.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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