

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

• Vol. 93, No. 6

Dear Client:

Washington, March 25, 2022

Supply-chain glitches are lingering...
But there are some improvements...
Still, shipping costs are soaring... again.

AG LOGISTICS First the good news: 5.8 was the average number of days containers remained at the ports of Los Angeles and Long Beach waiting for handling in February, the lowest level since August 2021.

More good news: 2,849,341 tons of cargo were shipped through Los Angeles International Airport in 2021, up 22.3% from the year prior and 30.5% more than the pre-pandemic year of 2019.

Increased logistical constraints in China followed its recent uptick in Covid-19 cases, which stopped activity in some of its important ports... but some work has restarted. More than 35 ships have gathered off Shenzhen and another 30 were waiting recently to the north at Qingdao, raising the prospect of a new round of bottlenecks that could push up freight rates and slow deliveries. Container loading at terminals has slowed because fewer trucks are arriving.

Costs to ship grain and soybeans have soared on the Mississippi River to an almost eight-year high. War in Ukraine and drought in Brazil have global crop importers turning to the United States. Rates for dry bulk barges on the Mississippi at St. Louis jumped to \$34.75 per short ton, the highest since 2014, according to USDA.

A chunk of the world's food and fertilizer is stuck in Russia and Ukraine, sending global prices soaring.

Potash giant Nutrien has been planning on increasing production of its fertilizer. But any renewed shutdown of the Canadian Pacific (CP) Railway could push the company to reduce output because its warehouses are already full of the fertilizer. CP and the union representing its conductors and engineers agreed to shift stalled contract negotiations to binding arbitration, freeing it to resume freight shipments after a two-day work stoppage.

Food supply chains in Ukraine are "falling apart" because of insecurity caused by the war and the reluctance of drivers to enter the country, said an official from the World Food Program. Food and water supplies in cities encircled by Russian troops, such as Mariupol, are running out. The agency also warned of "collateral hunger" in other parts of the world.

Bottom line: While supply-chain dynamics are improving in some areas, new glitches like those in China and a more lengthy war between Russia and Ukraine mean there is still no end zone in sight for logistical woes.

Aid Coming for EU Farmers

The European Union will for the first time tap an ag crisis fund to cushion the impact of the ongoing war in Ukraine on food producers facing high energy prices and shortages of some key products. The European Commission proposed using the fund's nearly 500 million euros (\$551 million) to support European farmers. The EU is also working on measures that would allow fallow land to be used to grow protein crops to avert a scarcity of feed, and measures to support the pork industry.

More aid ahead. EU agriculture ministers also discussed measures to support farmers suffering significant impacts of Russia's invasion on inputs like natural gas, fertilizers and animal feed. The ministers also undertook to look at other requests including fertilizer autonomy.

Source: EU and Ag Letter editors

MEAT
PACKERS

Discord on House Agriculture Committee over meatpacker hearing. A hearing scheduled for April 27 on the meatpacking industry announced by House Ag Committee Chairman David Scott (D-Ga.) revealed another friction point with the panel's Ranking Member GT Thompson (R-Pa.). "It is well known that among the four companies that dominate this market, there have been a number of allegations and investigations," Scott said. "It is critical that we find out if industry concentration and anti-competitive behavior [are] playing a role in inflating prices for consumers and preventing ranchers from receiving a fair price." He noted four companies have been "enjoying record profits" and said it was "time for the Agriculture Committee to address this very important issue."

But Rep. Thompson said Republicans on the panel were not consulted at all on the coming hearing. "If there has been manipulation or wrongdoing by packers, then the law needs to be enforced under the existing authorities at both USDA and DOJ [Department of Justice]," Scott said in a statement given to some news outlets, including *Ag Letter*. "Unfortunately, this hearing — scheduled with zero input from Republicans — has the appearance of a political charade designed to further this administration's narrative of blaming industry executives, instead of the Democratic party's own reckless spending, for skyrocketing inflation." He also chided Scott for setting the hearing as other issues are hitting agriculture, including the Russian invasion of Ukraine, rising input prices and increasing global hunger. "While I remain committed to working on bipartisan commonsense solutions, I am very disappointed in this Committee's direction," Thompson said.

Scott said he invited the CEOs of the four largest U.S. meatpackers to testify at the session. The situation continues deteriorating bipartisanship in the House Agriculture Committee that could become another hurdle for lawmakers to grapple with as they seek to write the next farm bill.

NEW
FARM BILL

Agriculture panel leaders focused on farm bill funding. Leaders of the House and Senate Agriculture Committees are intently focused on funding for the next farm bill, particularly with billions of dollars in conservation funding that was part of the stalled Build Back Better (BBB) package no longer in the picture. "I assure you we are moving on the conservation [funding]," House Ag's Scott (D-Ga.) told a meeting sponsored by *Agri-Pulse*. "We've moved on some other areas to find monies that we can move within our farm bill, and we'll find a way." However, he did not indicate what those other areas were, and he also warned that efforts to cut funding from the Supplemental Nutrition Assistance Program (SNAP) would not be supported, noting that efforts in the two prior farm bills to significantly reform SNAP had failed.

Senate Ag Committee Chair Debbie Stabenow (D-Mich.) cautioned the panel will be looking at essentially "a flat-funded farm bill" even though the safety net and crop insurance portions of the bill need to be built up. "That will be our challenge at this point," she said, adding there was "no automatic place" to find funds for climate-related agriculture. However, she did say they would try to find "creative" ways to make that happen. Analysts said that meant some titles could get less funding to help conservation.

Farm bill agenda: Thompson has seen the panel's schedule for farm bill hearings in the spring and early summer, noting it was "picking up the pace" on the process. Stabenow also said there would be field hearings by that panel and then a "title-by-title" review of the farm bill.

Congress could fail to pass a 2023 Farm Bill if Republicans try to mangle the food stamp program, Scott warned. He said the farm-and-food coalition of rural and urban groups was vital to enactment of the farm bill. "We saw during the past two farm bills that when one party tries to tear apart the farm bill coalition by going too far on trying to reform SNAP, that the farm bill fails," said Scott, recalling roll call votes in the House that temporarily derailed the 2014 and 2018 farm bills. Both times, Republicans sought large cuts in SNAP spending and eligibility restrictions.

Bottom line: This shows why the farm bill process will not likely get to the legislative writing stage until later this year... and is why some predict a one- to two-year extension of the current bill, especially with the funding issues facing the Ag panels.

China is facing its worst wheat crop in decades after severe flooding. Result: China is planning to buy much more of the world's dwindling supply.

India boosts wheat exports. The country ordinarily exports a small amount of wheat and has already seen foreign demand more than triple compared with last year.

Russia and Ukraine: Over the past five years, the two nations have together accounted for nearly 30% of the exports of the world's wheat, 17% of corn, 32% of barley, and 75% of sunflower seed oil, an important cooking oil in some parts of the world.

Ukraine's agriculture minister has begged allies for 1,900 rail cars of fuel, saying that the country's farms had run out after supplies were diverted to the military. Without that fuel, he said, Ukrainian farmers would be unable to plant or harvest.

The U.N. says up to 30% of Ukrainian farmland could become a war zone. And with millions of Ukrainians fleeing the country or joining the front lines, far fewer can work the fields.

Corn: Attention on Ukrainian corn capabilities is rising amid concerns with the country's ability to ship old-crop corn and how much of the crop will be able to go into the ground for this growing season. That sets up potential demand for U.S. supplies with signs that countries like China are starting to eye new-crop U.S. corn.

Soybeans: Vegoil markets remain strong as countries in Southeast Asia seek to assure their domestic supplies of palm oil and the Russian invasion of Ukraine interrupted a key source of sunflower seed oil around the globe. U.S. acreage prospects are taking shape with farmers weighing costly corn inputs on remaining acres.

Wheat: U.S. futures remain elevated as global wheat market turmoil continues with the Russian invasion of Ukraine. Russia is exporting some wheat, but volumes are off. Only problem is that U.S. supplies are too pricey for those needing wheat... areas in the Middle East and North Africa that rely on imports to feed their populations.

Rice: U.S. supplies... similar to wheat... are too pricey in many markets. Export demand has been reasonable, but most of the market focus is on overseas supplies. Even with some uptick in global use of brokens for feed, U.S. supplies are not price competitive. Wheat and corn market action will have more influence over rice ahead.

Cotton: Lofty cotton prices are expected to attract more acres to the fiber in 2022 with global demand eyed as a key outlet for what should be increased supplies. But economic concerns remain a wildcard which could dent clothing/fabric demand here, especially if the Fed taps the brakes too hard in its bid to quell inflation.

Hogs/pork: Margin woes have prompted pork packers to temper Saturday kills, keeping weekly slaughter totals under year-ago marks. The lofty cash/futures levels have constrained packer margins and that may not change. Updated USDA hog inventory figures March 30 will be the next key marker for markets to take price cues.

Cattle/beef: Cattle continue to come to market carrying hefty pounds. Weekly slaughter in early March saw carcass weights up 16 lbs. versus year ago and nearly 30 lbs. above the five-year average. That's keeping the beef pipeline supplied even as kill numbers are not varying greatly from week to week.

Poultry/broilers: Highly pathogenic avian influenza (HPAI) has continued to spread, but still has not yet taken out a significant percentage of U.S. birds or markets. The Super Bowl failed to generate excess wing demand and even some indicate the NCAA tournament has not spurred the wing business many expected.

Dairy: U.S. cheese sales were big in January... both here and abroad. Exports in January were up more than 16% from year ago but could have been even higher if not for ongoing logistics constraints. Domestic sales were also above year-ago marks. But rising inflation could temper consumer appetites as they seek to spread their food dollars further.

Transportation: Shipping rates have remained elevated and it is not clear how much that will be altered by the reopening of the Upper Mississippi River to barge traffic.

FOOD

Around 80% of food and beverage companies have passed on higher costs to customers. According to Mazars' research, 83% of respondents expected sales to increase in 2022, while 54% identified higher shipping costs as their primary concern.

Food inflation isn't going away *Barron's* said on a recent cover story. Surging prices for groceries, energy and other household essentials may not be as fleeting as economists or Fed policy makers expect. That brings a host of risks, from runaway inflation to social unrest.

Fallout from Russia's invasion of Ukraine is threatening global food supplies.

Crops from the most recent harvest are locked down in warehouses behind Russian battle lines, the *Wall Street Journal* reports, and farmers face the loss of wheat that is already in the ground and corn crops later this year because they can't get needed materials. In just three weeks, war has disrupted Ukraine agriculture, triggering higher prices and the threat of global shortages to countries that rely on Ukrainian commodities. Much of the country's exports go to developing economies already struggling with rising food costs. Russia's naval blockade has cut off shipping exports, but the country is transporting some goods through Western borders by train. Adding to the global woes, Russia is also struggling to get its crops through the Black Sea. By one estimate, the country's grain shipments are down 60% from normal levels.

RUSSIA

Largest ag companies are selling seeds and handling crops in Russia, despite pressure to sever ties. The *Wall Street Journal* notes: "Companies including Cargill Inc., Bayer AG and Archer Daniels Midland Co. say humanitarian concerns over food availability for Russian citizens and other countries justify the companies' continued operation in Russia, while Western oil companies, fast-food chains and other companies have pulled out or paused operations there." A Cargill spokeswoman pointed to the potential food-security implications outlined by the World Food Program, a United Nations agency, when responding to why the company is keeping essential food operations going in Russia. The U.N. agency notes the conflict could exacerbate food inflation and hunger in some of the world's poorest countries.

CFAP

Little change in CFAP payouts. Payments under the Coronavirus Food Assistance Program 1 (CFAP 1) were actually down slightly as of March 20, with total CFAP 1 payments at \$11.82 bil. (\$11.83 bil. prior) and original CFAP 1 payments are at \$10.63 bil. (\$10.64 bil. prior) while top-up payments were steady at \$1.19 billion. CFAP 2 payments held steady at \$19.17 bil. for total payments, \$14.34 bil. for original CFAP 2 payments and \$4.83 bil. in top-up payments.

FARM
EQUIP.

Deere & Co. signals more access for customers to service their own equipment. Deere & Company announced it is expanding access to self-repair resources and will make a customer service adviser available to customers and independent repair shops to buy such resources through www.johndeerestore.com in the U.S. The customer service adviser will also be available via John Deere dealers.

The company said in 2023, it will offer the ability for the remote download of software updates to embedded controllers. The issue of "right to repair" has risen with the Biden administration taking a keen focus on the situation via the Federal Trade Commission (FTC). The FTC prior to the Biden administration announcement had already concluded that it was going to pursue "right to repair."

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

March 25, 2022