

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Food insecurity, debt distress, inflation...

Some things on a list of global risks cited by leaders of the World Bank and the International Monetary Fund (IMF) in Washington this week for their annual spring meetings.

GLOBAL
RISKS

Stress for low-income and developing countries reeling from overlapping crises is one concern.

War in Ukraine is adding pressure to a global economy already hit by the Covid pandemic. World Bank Group President David Malpass said he is deeply concerned about developing countries, which are facing sudden price increases for energy, fertilizer and food... and the likelihood of interest rate increases around the world to combat inflation.

Debt is also a concern. Example: Sri Lanka is suspending payments on its \$35 bil. foreign debt... some fear this could be the beginning of a wave of defaults as countries grapple with currency depreciations, higher interest rates, surging oil and commodity prices and food shortages that could spiral into social unrest.

Restructuring debt is the word given by IMF Managing Director Kristalina Georgieva... urging countries that have lent money to some low-income and developing countries to work with them on restructuring their debt, cautioning it may require cutting debt to a size that can be serviced.

Due to high debt and deficit levels, countries are “under severe financial stress,” and the debt crisis is expected to “continue to worsen” this year, Malpass warned, adding 60% of low-income countries are already in debt distress or at high risk of it.

Another message: Countries should lower trade barriers that could hurt poor countries and aggravate the food shortages that may spur social unrest. Malpass noted preconditions like the wave of uprisings in the 2010s dubbed the Arab Spring. Malpass described the “stunning and heartbreaking” reversal of some countries going backward in years in terms of education, poverty and health rates, as well as gender equity.

Global trade is still facing quotas, high import tariffs, high export tariffs, expensive food price subsidies and even export bans on food products. “These should stop,” Malpass said. He urged the international community to immediately step up emergency assistance for food insecurity and help bolster social safety nets.

Surging food prices are another deep concern. For every 1 percentage point increase in food prices, 10 mil. people are expected to fall into extreme poverty, according to the World Bank, which is providing roughly \$17 bil. dollars per year to strengthen food security... a big part of the global effort, according to Malpass. *(More on page four.)*

IMF PROJECTIONS

Real GDP, annual % change

Country/ Region	2022 April	2022 Jan.	2021
World	3.6	4.4	6.1
U.S.	3.7	4.0	5.7
Euro Area	2.8	3.9	5.3
Germany	2.1	3.8	2.8
France	2.9	3.5	7.0
U.K.	3.7	4.7	7.4
Canada	3.9	4.1	4.6
China	4.4	4.8	8.1
Russia	-8.5	2.8	4.7
Ukraine	-35.0	NA	3.4
India	8.2	9.0	8.9
Brazil	0.8	0.3	4.6
Mexico	2.0	2.8	4.8
Sub-Saharan Africa	3.8	3.7	4.5

Source: IMF World Economic Outlook

**HOG
SECTOR** What we picked up while attending a hog industry conference.
Hurdles to expanding production include:

- Lack of labor.
- Busy construction companies, many of which have been retrofitting some operations to deal with California's Proposition 12 regulation... establishing new minimum requirements to provide more space for breeding pigs. California businesses will be banned from selling uncooked pork that came from animals housed in ways that did not meet these requirements. It is being challenged in court and the Supreme Court has accepted a petition to review the matter.
- Hard time dealing with various hog diseases, some the worst producers have seen in their lifetime.
- Higher feed costs.

Higher hog prices, especially this summer, are seen by several industry analysts we talked with. Reason: Lower herd numbers and less pigs per litter than most expect.

Regarding Prop 12... the industry hopes the Supreme Court will rule it unconstitutional because if not, environmental activists will use this as a template to come after other ag industries. Some hog producers think the poultry/egg industry did not fight the California rule when it had a chance. Also, some producers who have retrofitted their operations to fulfill Prop 12 guidelines think they will have a marketing advantage in some states like California.

Many producers no longer worry about ractopamine, an animal feed additive used to promote leanness and increase food conversion efficiency. Reasons: They either quit using it or found alternatives. Some countries have said they will not import pork from processors who can't prove they are ractopamine free in their shipments.

High anxiety about future U.S./China trade relations, especially if China "deals" with Taiwan.

Concern about the proposed SEC climate rule. The Securities and Exchange Commission (SEC) released a proposal for new rules that would require companies to disclose their risks related to climate change and their greenhouse gas emissions. It will be a while until the proposal becomes law, but if it does, the implications will be sweeping.

Frustration over the Biden administration's trade policy because it has not actively pursued new trade agreements.

**E15
ETHANOL** Biden is allowing increased ethanol in fuel this summer, but it may not have much impact except for a few ethanol-focused states.

Biden announced as of June 1, E15 gasoline can be sold during the summer, which is usually not the case. The sale of E15 is typically banned from June 1 to Sept. 15 due to environmental concerns. Under the 1990 Clean Air Act, the E15 blend fails to meet the Reid Vapor Pressure (RVP) requirements and creates smog that is harmful to the ozone layer during the summer. But ethanol proponents say the regulation is outdated and E15 does not cause summer smog.

The move will save Americans 10 cents per gallon at the pump, the White House said... although others said other factors may see gasoline prices keep rising.

E15 consumption only accounts for 814 mil. gallons, 0.6% of U.S. gasoline sales, which totaled 134 bil. gallons in 2021. Additionally, out of roughly 145,000 gas stations across America, only 2,300 sell E15... E15 accounts for less than 1% of all fuel sales and is only available at 1.6% of gas stations nationwide, limiting impacts from the emergency waiver for summer.

But it does have positive impacts for states like Iowa and Minnesota, which have invested more in E15 pumps and in pushing year-round sales.

There could be some court challenges to Biden's emergency action. Some say Biden's move raises significant Administrative Procedures Act concerns. The D.C. Circuit Court of Appeals struck down a similar but different attempt by President Donald Trump to extend the E15 waiver allowing sales throughout the summer.

DOLLAR

Will the dollar be dethroned as the world's major currency? The dollar has been the world's reserve currency since 1944. But Russia's invasion of Ukraine and the resulting U.S. decision to restrict Moscow from its own U.S. dollar holdings have prompted talk the greenback's days as the world's reserve currency may be numbered.

Most dollar watchers and analysts say the U.S. dollar will prevail for the foreseeable future. While China and Russia are conducting more trade in yuan (China's currency), the dollar continues as the preferred currency for nearly half of cross-border transactions, even though the U.S. accounts for just 10% of global trade... only about 3% of global transactions are conducted in yuan, according to SWIFT, the messaging service that facilitates the vast majority of money transfers globally.

Facts and figures: Around 55% of foreign exchange reserves held by central banks are denominated in dollars versus only 15% denominated in euros and just 2.5% in yuan. As the world's primary reserve currency, the U.S. enjoys the privilege that goes along with that, such as interest rates that are lower than they might otherwise be and the government being able to fund budget deficits in perpetuity.

MARKETS

Corn: Futures remain elevated as Russia's invasion of Ukraine continues to impact global trade... though some corn can exit Ukraine via rail. U.S. planting is off to a slower-than-normal start with conditions in the heart of the Corn Belt still not allowing widespread planting gains. Elevated wheat prices are also providing support for corn.

Soybeans: Demand news remains a positive with regular daily export sales to China amid reduced supplies in South America this year, along with record crush demand. The initial USDA update on planting of the 2022 crop was behind expectations, but the planting window has only started to open so early delays are not a major concern yet.

Wheat: Futures continue to rise as global wheat trade remains disrupted from the war in Ukraine and issues with farmers there harvesting the winter wheat crop. Dryness in U.S. Plains winter wheat areas and slow spring wheat planting are also providing support...but elevated prices are keeping U.S. wheat less competitive on the global market.

Rice: Planting has been slowed by heavy rains in the Delta with some states behind their average pace by double-digit percentages. Texas has managed to keep plantings ahead of average. Slow planting has kept emergence slower than normal. Demand will rise if planting difficulties remain over a wide swath of rice states.

Cotton: Prices remain elevated as planting is underway in the U.S. Texas is just ahead of its average pace along with California being well ahead of average. But remaining states are running behind the average pace. Demand in global fiber markets continues as countries seek to find alternatives to Chinese-produced supplies.

Hogs/pork: Highly pathogenic avian influenza (HPAI) in poultry is keeping support under hog prices as consumers look for alternative protein supplies. Market hog prices and sow prices are now at parity... a very unusual situation... due to tight supplies of sows being sent to market. That is pushing up pork trimming prices.

Cattle/beef: Live cattle futures went into Easter at levels seen in mid-March and there were also gains in cutout values ahead of the holiday. Live weights are above year ago levels by around 15 pounds. Feeder/live cattle futures spreads are near historically narrow levels as the market accounts for increased feed costs.

Poultry/broilers: Spread of HPAI in U.S. poultry has hit turkey meat production and egg output as many layer flocks have been infected and euthanized. Result: Rising egg prices, which are currently one of the most volatile price items in stores. HPAI has now reduced more than 21% of the average monthly turkey slaughter levels.

Dairy: U.S. dairy exports rose in February by 1.2% on a volume basis vs. year ago, in part due to shipments of U.S. butter hitting their highest level since 2014. Cheese exports in February reached 72.6 mil. pounds, the largest February level on record. With milk prices and margins positive, the U.S. dairy herd will be expanding.

Transportation: Grain barge freight rates have turned somewhat lower but are maintaining a relatively firm tone. Ocean freight rates continue to decline while secondary railcar values have also retreated. But new-crop values remain strong.

WORLD
BANK

World Bank: 'Exceptional uncertainty.' World Bank Chief Economist Carmen Reinhart said the global economy is passing through a period of “exceptional uncertainty” and added that she wouldn’t rule out further downgrades to the growth outlook. The Washington-based institution lowered its estimate for global growth this year to 3.2% from 4.1% in its January outlook as Russia’s invasion of Ukraine... a major grain producer... shows no sign of ending, and China’s lockdowns to combat Covid are stressing supply chains. The World Bank is also looking to discuss a new crisis-response package of about \$170 billion.

IMF

IMF cited the war in Ukraine as a key factor, which will lower economic growth around the globe and further boost inflation. The war is “a costly humanitarian crisis that demands a peaceful resolution.” IMF said the economic impact will “contribute to a significant slowdown in global growth in 2022.”

Not surprisingly, IMF expects a “severe double-digit drop in GDP for Ukraine and a large contraction in Russia” as likely with “worldwide spillovers through commodity markets, trade and financial channels.” Beyond reducing economic growth, IMF said the situation will add to inflation and that elevated inflation “will complicate the trade-offs central banks face between containing price pressures and safeguarding growth.”

Interest rates are expected to rise as central banks tighten policy, which IMF said will be “exerting pressure on emerging market and developing economies. Many countries have limited fiscal policy space to cushion the impact of the war on their economies.”

IMF said global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in both 2022 and 2023. These are 0.8 percentage points and 0.2 percentage points lower, respectively, than its January projections. Beyond 2023, global growth is forecast to decline to about 3.3% over the medium term. But the forecast is based on some important assumptions... the war will stay contained to Ukraine and that sanctions will exempt the energy sector.

BIDEN
2024?

Biden told Obama he’s running again. President Biden told former President Barack Obama that he is planning to run for re-election in 2024, two sources told *The Hill*. The admission to Obama is the latest indication Biden is likely to run for a second term.

Naysayers believe this is a decoy where the president used former President Obama to stem the questions regarding 2024. Biden would become a clear lame duck president if he were to say he was not running in 2024.

IOWA
SENATE

Court clears Finkenauer candidacy. Iowa’s Supreme Court ruled unanimously that former Rep. Abby Finkenauer, front-runner Democrat vs. GOP Sen. Chuck Grassley (R-Iowa), submitted enough signatures to be on the ballot for the Democratic nomination.

OKLA.
SENATE

Former EPA boss Scott Pruitt is running for the U.S. Senate. Pruitt officially filed to run for the seat currently held by retiring Sen. James Inhofe (R-Okla.). Pruitt headed EPA until resigning in 2018 amid several ethics controversies. Pruitt will face off against several other Republicans in the June 28 primary.

2024
President

Manchin for president... but which party? During a fundraiser for Sen. Joe Manchin (D-W.Va.) last month, several top executives said they privately hoped the conservative Democrat would switch parties and run against President Joe Biden in the 2024 election, *CNBC* reports.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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