

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Biden and USDA want more plantings... particularly of wheat and oilseeds.

But initial proposals fell flat...

Alternative options were unveiled by President Joe Biden in Illinois, along with USDA Sec. Tom Vilsack. Most can be done administratively without Congress' ok.

FARM
POLICY

Offsetting penalty for planting a crop after a prevent-plant claim and potentially extending crop insurance final planting dates are latest options. Early prepping of land with expiring CRP contracts before Sept. 30 is under review.

Fertilizer production: USDA wants to boost from \$250 mil. to \$500 mil. the amount of funds to augment domestic production of fertilizer. Most think that will not boost production that much and would take time.

Other proposals: increasing technical assistance for adoption of precision agriculture methods, and insuring double cropping in 681 additional counties, bringing the total number of eligible counties to 1,935.

USDA will prioritize precision agriculture within the Environmental Quality Incentives Program... EQIP... and Conservation Stewardship Program... CSP.

Prior trial balloons bombed... they would have significantly boosted some crop loan rates.

Proposals were a "conversation starter" Vilsack said. Translation: There was little support for them.

White House is concerned about impacts of the war on Ukraine's exports, which Russia has blocked. Biden said the war threatens food security in Africa and the Middle East, citing 20 mil. metric tons of grain stuck in silos in Ukraine. Russia's invasion of Ukraine has "generated one of the most severe food and energy crises in recent history which now threatens those most vulnerable across the globe," the Group of Seven... G7... club of rich nations said in a statement after a meeting in northern Germany.

World faces outright food shortages as early as next year if Ukrainian seaports remain blocked by Russia, food officials note. Executive director of the World Food Program, David Beasley, told a conference in New York that Ukrainian ports must reopen before the harvest season, which begins in earnest in mid-June, to prevent storage shortages. Some 300 mil. people could face "crisis levels of acute food insecurity in the coming months," he said earlier in written U.S. Senate testimony.

European Union and the U.S. are planning to launch a new platform to address the security of food supplies and ag commodities as the war in Ukraine curbs global access to staple crops and fertilizers from the region.

OTHER OBSERVATIONS

G7 ag officials are making the case against food export restrictions, but several countries have done just that.

India just invoked a rare ban on wheat exports, with few exceptions, to help tame domestic prices. "The food security of India, neighboring and other vulnerable countries is at risk," said India's Directorate General of Foreign Trade in a notice explaining the ban.

Farm policy analyst says: "If you extend the final plant date to help producers who cannot get into the field due to wet conditions, USDA would need to hold companies harmless. The dates would have to be reset so they do not result in freeze damage in the fall. A better option still is for USDA to propose permanent changes to strengthen the farm bill safety net for the farm bill and crop insurance or announce CCC payments to address increased production costs. This year, commodity prices for most crops will be the incentive needed to plant and harvest."

Source: Ag Letter editors

MEAT
INDUSTRY

Livestock groups support bill to boost meatpacking capacity. Livestock organizations threw their support behind legislation that would allow livestock auction market owners to invest in or own small and medium-sized meatpacking operations. In a letter to the leadership of the Agriculture committees in the Senate and House, National Pork Producers Council, the American Sheep Industry Association, the Livestock Marketing Association, the National Cattlemen's Beef Association and the United States Cattlemen's Association asked that the "Amplifying Processing of Livestock in the United States," or A-PLUS Act be considered and advanced.

Livestock groups said supply-chain challenges and a lack of packing capacity have negatively affected consumers and producers. To remedy that, livestock auction owners have expressed interest in getting involved in the meatpacking business. But the Packers and Stockyards Act prohibits owning both an auction company and a packing firm or a meat marketing business based on decades-old concerns about the transparency of livestock transactions. Now, however, livestock are sold at open auctions where sellers can view transactions in person or online. (Very few hogs are sold through auctions.)

A-PLUS Act would allow investments in processors harvesting less than 2,000 head per day or 700,000 head a year, reflecting the size of processing in the beef industry. NPPC said it will support an amendment to the bill with a proportionate number based on current daily and annual pork processing.

TRADE
POLICY

GOP senators are urging President Biden to negotiate new trade deals to expand U.S. ag exports. The Biden administration has made no moves so far to begin negotiating any new trade agreements nor has it sought reauthorization of an expired Trade Promotion Authority. That prompted 24 Republican senators, led by Senate Republican Whip John Thune (R-S.D.), Senate Agriculture Committee Ranking Republican John Boozman (R-Ark.), and Senate Finance Committee Ranking Republican Mike Crapo (R-Idaho) to urge USDA Sec. Tom Vilsack and U.S. Trade Representative Katherine Tai to take action to jumpstart the U.S. trade agenda. "The lack of ambitious market-opening initiatives not only disadvantages U.S. workers, farmers, ranchers, and businesses today, it jeopardizes America's competitiveness, resilience, and security in the long-term," the senators wrote in their letter. "America cannot afford to sit on the sidelines in trade... Opening new markets for customers, reducing barriers for business, and enforcing robust trade agreements are cornerstones of our national prosperity."

30x30

Republicans demand EIS on "30x30". Some Senate Republicans, led by Sen. Kevin Cramer (R-N.D.), are calling on the Biden administration to stop work on its 30x30 initiative... an initiative to "protect 30% of land and oceans by 2030"... until it does an environmental impact statement (EIS) and discloses the legal authority behind the effort. "Despite the lack of transparency and promised consultation, 30x30 is moving forward outside the scope of public review," the senators say in a letter to the White House.

CLIMATE
CHANGE

SEC extends comment period on climate disclosure. The Securities and Exchange Commission... SEC... is extending the comment period on a proposed rule that could require corporations to report on greenhouse gas emissions of their supply chains. The comment period, which was slated to end May 20, is being extended to June 17.

Rule could force many publicly traded companies to start tracking emissions from their agricultural suppliers. The American Farm Bureau Federation (AFBF) argues the rule would increase producers' costs significantly. AFBF, along with 120 other ag groups, pressed for extending the comment period deadline.

CARBON
MARKETS

CFTC looking into carbon markets. The Commodity Futures Trading Commission... CFTC... is holding its first-ever meeting on carbon markets next month to discuss the supply and demand for carbon offsets. With the emergence of derivatives that are tied to carbon credits, the June 2 meeting will focus on such issues as standardization and the data needed to back up claims about the offsets' impact on emissions.

FTC

Democrats have regained a majority at the Federal Trade Commission... FTC.

Chairwoman Lina Khan can advance an aggressive agenda focusing on Big Tech and major oil companies. Dems' 3-2 advantage will now come in handy during votes related to the regulation of Big Tech companies and on questions related to corporate monopolistic conduct, mergers, and fraudulent activities.

Khan and Democrats at the commission are likely to use their new majority to investigate and file new lawsuits against Big Tech companies like Amazon...and are expected to look into the meatpacking industry. They're also likely to investigate claims of oil price gouging, as sought by Democrats, and, more generally, scrutinize major recent mergers and find ways to strengthen consumer and child data privacy.

FTC may focus on stopping major recent mergers, such as the Microsoft-Activision deal and the Amazon-MGM merger, as well as changing the merger guideline policies.

It's seen as unlikely FTC would try to stop Elon Musk from taking over Twitter given that the billionaire CEO doesn't have any major conflicts of interest that could violate antitrust law.

MARKETS

Corn: USDA reduced its initial corn yield projection by 4 bu. per acre from trendline due to the slow planting pace... lower than most private forecasts. There have been only five other years when this occurred in May, the most recent being 2013. In four of those years, the final yield ended below trendline, while 2009 produced an above-trend... and then-record... yield after a slow start.

Soybeans: USDA cut old-crop ending stocks by 25 mil. bu. from last month to 235 mil. bushels. The only change was a 25-mil.-bu. increase to exports... now forecast at 2.14 bil. bushels. For 2022-23, USDA projects ending stocks at 310 mil. bushels. It projects total supply at 4.89 bil. bu., up 183 mil. bu. from this year, with the crop expected to rise to 4.64 bil. bushels. New-crop bean use is projected at 4.58 bil. bu., up 108 mil. bu. from this year.

Wheat: USDA's initial U.S. winter wheat crop estimate came in well below expectations, as did the U.S. old- and new-crop wheat ending stocks forecasts. That fueled a run to new contract highs in HRW and HRS contracts. The HRS market appears to be making a late attempt to "buy" acres, though Mother Nature hasn't cooperated. India mostly scrapping exports, adds more price strength... and volatility to markets.

Rice: USDA says the 2022-23 outlook for U.S. rice is for reduced supplies, exports, domestic use and ending stocks. Total supplies are projected at 258.2 mil. cwt, down 4% from a year earlier on lower production and beginning stocks more than offsetting record imports. The all-rice season-average farm price (SAFP) is projected at a record \$17.80 per cwt, up \$2.10 from the 2021-22 revised SAFP... primarily the result of a record long-grain SAFP and a record California medium- and short-grain SAFP.

Cotton: USDA lowered old-crop ending stocks by 100,000 bales amid a cut to the 2021 crop estimate. USDA projects total supply at 19.91 mil. bales... down 770,000 bales from this year... and total use at 17 mil. bales (down 300,000 bales). For 2022-23, USDA projects ending stocks at 2.9 mil. bales. Price volatility will continue.

Sugar: Sen. John Hoeven (R-N.D.) said he is concerned about a recent increase in the quota for imported sugar. USDA Sec. Tom Vilsack said USDA made the decision to allow more imports because the stocks-to-use ratio had fallen to 12%, which is below the 13.5% to 15.5% USDA seeks to maintain. Hoeven said U.S. growers are worried the ratio will rise above 15.5%.

Hogs/pork: Hog and pork cutout values have diverged dramatically from historical spring patterns despite the significant reductions in hog supplies seen this year. One explanation for the lack of price response relates to elevated hog weights; those are being maintained to mitigate the pork shortage. But it also robs producers of bargaining leverage. Some see a summer rally... perhaps a sharp one... on smaller marketings.

Cattle/beef: Seasonal patterns imply declining cash cattle prices during summer and possibly beyond. Elevated weights are boosting beef production per head. Some worry weak demand will amplify the breakdown this year.

FTX
PROPOSAL

House Ag panel holds hearing on trading margined products. The House Agriculture Committee held a hearing recently on FTX's proposal to trade margined products under a non-intermediated clearing model. Clearing houses came under regulation after the 2008-2009 financial crisis to protect traders and make markets more stable.

FTX's proposal would remove the clearing house middleman, presumably meaning the risk would be taken on by the exchange itself. The House Agriculture Committee has jurisdiction over the CFTC which regulates cryptocurrency.

BIRD
FLU

Consumers concerned about bird flu impacts on food prices. Approximately 60% of U.S. consumers are concerned about the impact of the avian influenza outbreak on food prices, according to Purdue University's monthly Consumer Food Insights Report.

Egg prices increased more than 10% in April, and poultry prices were up 3%. The survey also found that 23% of all rural households are facing food insecurity, compared to 14% of all households.

MEAT
PACKERS

House Democrats criticize meatpacking industry's Covid policy. The House Select Subcommittee on the Coronavirus Crisis issued a partisan staff report in which it criticizes the meatpacking industry and Trump administration officials for continuing to process meat during the pandemic. The report claims Trump officials "collaborated" with the meatpacking industry to downplay the threat of Covid to plant workers and block public health measures Democrats say could have saved lives.

The North American Meat Institute responded to the report, stating the committee ignored the safety measures the companies put in place to protect employees and that the committee had "done the nation a disservice" by issuing such a report.

FED
RESERVE

Aggressive rate hikes sought. Federal Reserve Bank of Cleveland President Loretta Mester said the U.S. central bank needs to press forward with aggressive rate rises, and that by early fall it may be able to take stock of whether it can slow down or will need to speed up the process of removing support from the economy. "Unless there are some big surprises, I expect it to be appropriate to raise the policy rate another 50 basis points at each of our next two meetings," Mester said in a speech.

AG &
EQUITIES

Ratio between ag and equity markets is at its highest level since August 2017, according to Peak Trading Research, as supply shocks help to push food prices higher. The BCOM Ag Index is up 24.5% in 2022 while the S&P 500 is down 17.4%. Agriculture's relative strength has come at a time when most commodity markets have softened on supply chain issues and a lack of demand, Peak says. "Agriculture futures are benefiting from tight balance sheets, significant weather problems... Corn Belt delayed planting, U.S. Plains drought, India heat, Black Sea export concerns, new export taxes/bans, strong demand, and bullish seasonals," the firm says.

CONGRESS

Letlow joins Appropriations Committee, Kaptur joins Ag. Rep. Julia Letlow (R-La.) got a coveted spot on the House Appropriations Committee and will serve on the Subcommittee on Ag. Because Appropriations is considered an exclusive committee assignment, party rules dictate Rep. Letlow can no longer serve on the House Agriculture Committee. Therefore, Letlow's departure will mean a GOP vacancy on that panel.

Kaptur to Ag. Rep. Marcy Kaptur (D-Ohio), a senior member of the House Appropriations Committee, is joining the House Agriculture Committee. Kaptur fills the committee slot vacated by Rep. Antonio Delgado (D-N.Y.) who was appointed to serve as Lieutenant Governor of New York.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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