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Dear Client: Washington, May 6, 2022

<u>Let's take a look at the CRP</u>… Conservation Reserve Program.

<u>More than 2 mil. acres enrolled</u> via a general signup ended in March.

<u>Fewer new acres submitted for CRP</u> than in last general signup.

<u>More details needed to fully assess the impact</u>.

CRP <u>Details</u>: Of the over 2 mil. ac. offered, approximately 2 mil. ac. are acceptable. Those acres can be enrolled in CRP with a contract start date of Oct. 1.

<u>Acceptance criteria</u>: Average rental rate was $51.51 per acre, below the current average for CRP ground enrolled via general signups of $55.71 per acre. Producers submitted offers on just over half of expiring CRP contracts for re-enrollment via the general signup, but there were 400,000 fewer acres offered as new acres to be enrolled in CRP. Last year, USDA noted there were over 700,000 new acres offered for enrollment via the general signup conducted then.

<u>Offers were ranked using the EBI</u>… Environmental Benefits Index, with a maximum score of 545. Those with an EBI of 184 or greater were "deemed basically acceptable," FSA said. However, there is a separate list of states where an EBI score of 174 or greater was determined "basically acceptable."

<u>Producers have 15 calendar days to notify</u> their FSA county office of whether they want to continue with the offer to participate after receiving notice from FSA via form CRP-23 that their offer was accepted.

KEY CRP INFO COMING

• **CRP info ahead includes where the acres are located** that were submitted for re-enrollment in the program. That data will provide some perspective on where CRP acres could be brought back into production. There are limits on how much of those acres will be able to come back into production for 2022, as CRP rules do not allow preparation of the ground to begin before July 1 relative to removing cover on those acres. And the CRP contract holder would lose rent from the start of that process through Sept. 30 when the contract expires.

• **Lure of current commodity prices** was acknowledged by Vilsack. "Our conservation programs are voluntary, and at the end of the day, producers are making market-based decisions as the program was designed to allow and encourages," Vilsack noted.

• **Max CRP acres illusive target.** USDA will not likely come close to the legislated maximum of 27 mil. acres for the program in FY 2023.

Source: USDA, Ag Letter editors

<u>Other CRP program acres were accepted</u>… 260,000 acres offered under continuous CRP and Conservation Reserve Enhancement Program (CREP) signup efforts.

<u>About 3.4 million acres of CRP contracts will expire as of Sept. 30</u>, but that figure reflects only acres enrolled via general signups as USDA data shows contracts on another 560,000 acres enrolled via continuous signup efforts also expire Sept. 30.

<u>CRP info does not quite mesh with comments from USDA Sec. Tom Vilsack</u> on April 5 when he said 52% to 56% of acres under contracts that mature at the end of September were not offered for re-enrollment, yet USDA's release said that over half of the maturing CRP acres were put in for re-enrollment. Vilsack also said that around 800,000 acres of land not currently under a CRP contract were to be enrolled in the program.

<u>Actual signup figures also raise questions</u> of why Vilsack's comments from early April did not match up. It points to the potential peril of discussing data that has not yet been finalized… general CRP signup closed March 11 and more details are coming.

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E15 ETHANOL

Hurdles to higher ethanol blends. Biofuel and farm groups see E15 and other higher blends of corn ethanol into gasoline as the strategy to increased sales, but the current structure of the Renewable Fuel Standard "does not serve to incentivize ethanol blends higher than E10." That's according to a report from USDA's Office of the Chief Economist. Without year-round E15 sales, the report says it would be difficult to increase ethanol consumption. It also says more investment in infrastructure would help. Another drag against higher ethanol consumption are more efficient vehicles and more electric vehicles and hybrids, which is reducing gasoline consumption.

Easiest transition: shift to E15, in terms of fuel dispensing equipment and vehicle compatibility, the report found; "E15 is already a viable fuel option for most vehicles; about 93% of all light-duty vehicles can safely refuel with E15," it explained. While an expansion of even higher ethanol blends is possible "there are technical, legal, and economic challenges (e.g., consumer acceptance, legal and contractual considerations for retail fueling stations, vehicle warranties, and investments in wholesale and retail distribution infrastructure) that need to be evaluated and addressed," it said.

E15 a more viable option than E85. Though most vehicles on the road today are compatible with E15, flex-fuel vehicles (FFVs) that can use even higher blends like E85 were once seen as a catalyst for greater adoption of higher blends in the marketplace. However, since 2014 the number of FFV models offered by automakers has declined. "Factors assumed to have contributed to this decrease include relatively low gasoline prices, the Volkswagen diesel emissions scandal, and the phase-out of Corporate Average Fuel Economy (CAFÉ) credits for FFVs," the report detailed. "Furthermore, actual consumption of E85 among flex-fuel vehicle owners remains limited."

BATTERIES

Battery startup in rural Washington. A battery materials startup called Sila, cofounded by a one-time Tesla engineer and backed by Mercedes-Benz, is building a massive factory in rural Washington to make battery anodes that use silicon instead of graphite. Its aim: to power millions of electric vehicles.

Meanwhile, DOE announces $45 million in funding to boost EV battery tech. The Department of Energy (DOE) announced up to $45 million in funding to support domestic development of advanced batteries for electric vehicles (EVs). Through DOE's Advanced Research Projects Agency-Energy (ARPA-E) the department is launching the new Electric Vehicles for American Low-Carbon Living (EVs4ALL) program. The EVs4ALL funding opportunity aims to address three key market concerns: faster charging, increasing efficiency across temperature extremes and improving the lifespan and capacity of the batteries.

Apple Inc. has recruited a longtime Ford Motor Co. executive who helped lead safety efforts and vehicle engineering, a sign the iPhone maker is again ramping up development of an electric car," *Bloomberg* reports.

Why we have and will continue to focus on electric vehicles. Increasingly they will temper some sales of gasoline- and diesel-fueled vehicles. But it looks like at least a decade of investment is needed in the search for renewable batteries, production of critical minerals used for batteries, a much-needed improvement of the U.S. electrical grid, and lower prices to serve as competition to non-electric vehicles. The future of the ethanol-based Renewable Fuel Standard will have to be significantly modified as currently, blending mandates are based off gasoline consumed. More electric cars mean less gasoline consumption. This is why the ethanol industry is restricting via octane boosters, a push for E15 or higher blends, and as technology developments, ethanol could be part of the big push ahead for Sustainable Aviation Fuels.

CLIMATE CHANGE

Unintended consequences re: climate change provisions. Industry lawyers are warning climate change provisions of the Biden administration's new environmental permitting rules will throw more proposed projects into the courts… potentially jeopardizing the very projects the White House wants to promote. Wind farms, solar arrays, and renewable energy transmission lines… all parts of the White House's bid to cut domestic greenhouse gas emissions in half by 2030… could be affected, according to attorneys.

CHINA TARIFFS

USTR starts required review of Section 301 tariffs on China. The Office of the U.S. Trade Representative (USTR) has readied a notice to appear in the Federal Register that it is launching the four-year review of the Section 301 tariffs put in place July 6, 2018, and Aug. 23, 2018. Under the Trade Act of 1974, the first step in the four-year review process is notifying representatives of domestic industries which benefit from the trade actions of the possible termination of the tariffs and provide them the opportunity to request that the tariffs be continued. They have a 60-day window to make those requests.

For tariffs imposed via the July 6, 2018, action, those seeking to have the tariffs continued must submit their requests between May 7 and July 5.

For the Aug. 23, 2018, action, comments are due between June 24 and Aug. 22.

The review is taking place amid a backdrop of discord within the administration as U.S. Trade Representative Katherine Tai has pushed to keep the tariffs in place to preserve leverage with China relative to them living up to terms of the Phase 1 agreement, while others including Treasury Secretary Janet Yellen have suggested removing tariffs would be a potential way to temper inflation.

MARKETS

Corn: Planting conditions have remained a challenge in many areas of the Corn Belt while other producers have been able to get the 2022 corn crop in. As delays push further into May, market concerns… and producer concerns… will continue to mount. But if producers get a window of opportunity, equipment allows closing the gap.

Soybeans: The later corn planting gets, the higher the odds growers could switch from corn to soybeans. Crush demand for soybeans remains a supportive factor for prices given rising prices and tightening supplies of vegoils around the globe.

Wheat: U.S. winter wheat ratings remain poor, but forecasts have some rainfall heading toward Plains HRW wheat areas… like Kansas. If rains fail to materialize or are disappointing, that would keep support under winter wheat futures. Spring wheat market is focused on planting in the Northern Plains where snow and flooding are hurdles.

Rice: Planting in the Delta and water allocation issues in California are supporting futures. If plantings catch up to normal levels, some of the risk premium would recede.

Cotton: Plantings remain near average, with Texas the main state keeping seedings on track. Demand could become a factor if economic conditions deteriorate where consumers rethink clothing purchases here and globally.

Hogs/pork: Total pork in U.S. stocks at the end of March were 487 mil. pounds, up 8% from the prior year, with a 60% rise in belly stocks over the same period. The market is entering a time when pork exports may start to perk up, but currency values could temper sales abroad. Seasonally, cash prices should strengthen into mid-summer.

Cattle/beef: USDA feedlot data surprised traders as March placements were larger than expected. Given that first-quarter placements were near 1% above last year, the expected year-over-year declines in fed cattle supplies later this year should largely be contained to the fourth quarter.

Poultry/broilers: U.S. bird flu cases in commercial operations continue to increase with 4.7 mil. turkeys and 2.3 mil. broilers depopulated. Around 71% of the commercial flocks testing positive for bird flu have been turkeys. Total finds as of May 1 stood at 160 commercial flocks. But already 41 have been released from quarantine… a step toward repopulation efforts.

Dairy: Natural cheese stocks were 1.458 bil. pounds in March, declining 0.7% from last year. Stocks also fell from February to March for the first time since 2011, but still remained at the second largest March level since that year. Cow slaughter data also points to increases in dairy cow numbers… and milk production… ahead.

Transportation: Grain barge freight rates are flattening but still in record territory. The U.S. inland barge fleet has likely peaked for several years as the price of scrap steel has incentivized scrapping of older equipment, while prices of plate steel and resins for fiberglass covers have been very high, limiting investment in new equipment.

Alert: If it looks like corn, soybeans and/or wheat will be much below trend, Washington policy types will go into high gear to impact 2023 plantings… to boost them.

FED RESERVE

Fed raises rates 50 basis points and could again twice more as it remains "highly attentive" on inflation. Target range for Fed funds rate now 0.75% to 1%; "ongoing increases" will be appropriate. Fed Chair Pro Tempore Jerome Powell said the Fed will start trimming $9 trillion balance sheet June 1. And the Fed remains focused on inflation but acknowledges the first quarter downturn in GDP.

"We will make our decisions meeting by meeting as we learn from incoming data and evolving outlook for the economy. We will continue to communicate our thinking as clearly as possible," Powell said.

Asked if a 75-basis-point increase was being considered, Powell said the U.S. central bank was "not actively considering" such a move.

Acknowledging economic downturn. The Fed took the action to increase rates despite noting that "overall economic activity edged down in the first quarter," the post-meeting statement said, but it also indicated "household spending and business fixed investment remained strong."

Inflation a huge focus. "Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures," the statement said. The Russian invasion of Ukraine is also a factor in the outlook, as the "invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity."

The lockdowns in China were also cited, as the Fed said those are "likely to exacerbate supply chain disruptions."

Powell said the Fed has "both the tools we need and resolve to restore price stability on behalf of American families and businesses. The economy and the country have been through a lot over the last two years and proved resilient. It is essential we bring inflation down if we are to have a sustained period of strong labor market conditions that benefit all." He also pointed to high inflation when he noted, "The labor market is extremely tight, and inflation is much too high."

Powell expressed a hope that some reduction in inflation could be in the cards. "I think expectations are that we will start to see inflation flattening out, and not necessarily declining yet," he observed, adding the Fed has seen "some evidence" that inflation measured by core Personal Consumption Expenditures (PCE) may be "reaching a peak or flattening out. We want to know more than just some evidence. We want to feel like we are making some progress there." He insisted that a drop in inflation one month is not enough evidence, stating, "one month's reading would not… doesn't tell us much."

As for actions the White House has announced to bring down inflation, Powell, "Right now we need to focus on doing our job, and I'll stick to that, stick in our lane."

The U.S. economy is strong and well positioned to handle more rate increases to combat inflation, with Powell noting nothing suggests the economy is close to recession. He feels there is a "good chance" for a soft landing for the economy and "plausible path to avoid" a recession. Some (many) economists disagree with his soft-landing hopes.

Bottom line: In the months ahead, the Fed has to make a lot of correct policy calls and the road to a soft landing will be, well, hard. Not impossible, but quite difficult.

Best regards,

The Ag Letter Editors

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