

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Crunch time for congressional Dems...
With Nov. 8 mid-term elections ahead.

Congress Democrats want another major spending bill,
 which includes key policy initiatives that have
 been hard to get.

Key bill is another reconciliation measure that
 will only need Democratic votes. Democrats would use
 a special process called reconciliation that allows it to
 advance with just a simple majority in the 50-50 Senate.

High-level Senate talks ongoing. Sen. Joe Man-
 chin (D-W.Va.) and Senate Majority Leader Chuck
 Schumer (D-N.Y.) continue to negotiate on a reconcili-
 ation package, with Democrats working on a package
 that includes \$300 bil. in spending for climate and
 energy portions of the bill. Some potential items could
 include a 10-year extension of wind and solar tax cred-
 its, extensions for carbon capture and clean energy
 manufacturing incentives, and new nuclear and energy
 storage credits. This would likely include an incentive
 payment for Sustainable Aviation Fuel (SAF).

SAF incentives would be a game changer for the
 soybean sector as it would eventually significantly in-
 crease demand for soybean oil used for the product.

Some reconciliation tax changes, including the
 fate of the U.S. piece of the global corporate minimum
 tax agreement and the \$10,000 cap on the state and local tax deduction, remain un-
 der discussion. A proposed surtax on people with incomes above \$10 mil. seems less
 likely to be included. Other ideas, such as around \$80 bil. of spending on beefed-up tax
 enforcement, seem more likely to advance. Democrats have settled on at least one tax
 increase, reports note. They are planning a change that would raise taxes on many busi-
 ness owners with incomes of at least \$400,000 for individuals and \$500,000 for married
 couples. The emerging plan would devote the money to extending the life of the Medicare
 trust fund.

Text on a plan to lower the cost of prescription drugs has been sent to the Senate
 parliamentarian... would lower budget deficits by nearly \$300 bil. over a decade.

Extending subsidies for purchasing health insurance under the Affordable Care
 Act... ObamaCare... is also favored by Democrats. If the subsidies aren't extended, mil-
 lions of consumers will see their premiums rise next year, because additional financial
 help provided as part of Covid-19 relief ends on Jan. 1.

Bottom line: While many say odds are below 50% for the package, Democratic lead-
 ers see this as a must-pass measure. Biggest hurdle: getting enough House Dems on board.

OTHER KEY BILLS

Fiscal year (FY) 2023 begins Oct. 1
 and as usual, Congress is behind in
 its work. House Democrats this week
 considered six FY 2023 spending
 bills, including the measures that fund
 USDA. Most of the spending bills will
 very likely see final passage in a late-
 session omnibus package.

USICA, aka the China bill, which
 aims to bring billions of dollars in
 funding to help bring semiconductor
 manufacturers to the U.S. But Senate
 Minority Leader Mitch McConnell (R-
 Ky.) late last month said he wouldn't
 move forward unless Democrats
 dropped their efforts to revive eco-
 nomic proposals via reconciliation that
 Republicans oppose. To confront Mc-
 Connell, some Democrats now want
 to send the already passed Senate
 U.S. Innovation and Competition Act...
 USICA... to the House for passage.

Source: Ag Letter editors

FARMER
PROTEST

Dutch farmers are revolting as the government plans to rein in the use of nitrogen and ammonia in agriculture, the AP reports. The country is racing to cut 50% of its nitrogen use by 2030, but Dutch farmers warn it will put them out of business and are taking to the streets to protest... blocking distribution centers and lighting hay bales ablaze. Some farmers fret the same situation could occur in the United States.

FARM
BILL

House Ag Committee leaders want online ag sector feedback about 2018 Farm Bill. House Agriculture panel leaders announced an online feedback effort for the upcoming farm bill. Members of the public will be able to submit their feedback on how the 2018 Farm Bill has operated and offer their ideas on what the next farm bill should focus on via an online form.

WTO

U.S. officials want WTO member countries to meet informally every few weeks to build a consensus on how to revamp the body's dispute-settlement system, a suggestion some trade policy analysts called for years ago.

Meanwhile, the U.S. is working to resolve an impasse that has left the World Trade Organization... WTO... without senior judges to resolve trade disputes, U.S. officials told the *Wall Street Journal*. Lower panels still hear cases brought by members, but any appeals by those dissatisfied with initial decisions have no place to go.

UKRAINE

Ukraine ag export update. Ukraine claimed a success in the south late July 11, saying that eight foreign ships were able to access ports. A major grain producer, Ukraine has struggled to export supplies since Russia seized its main ports, causing food shortages across the world.

Russia, Ukraine to hold another round of talks on grain exports. Russian President Vladimir Putin and Turkish President Tayyip Erdogan held a phone call Monday in which they discussed coordinating efforts to ship grain from the Black Sea, the Kremlin said. A fresh round of talks between Russia, Ukraine, Turkey and the United Nations over grain exports from Ukraine was slated for Istanbul, *Interfax* news agency reported, citing the Russian foreign ministry. There have been regular talks on restarting Ukrainian grain exports but no real movement on that front.

EURO

The euro hit \$1 on Tuesday, down about 12% since the start of the year as energy concerns and the risk of recession weighed on the outlook for the euro area, while risk aversion fueled a broad rally in the U.S. dollar. "You could argue that the ECB has been rather late to the party both in terms of ending their bond purchases but also considering monetary policy tightening," Jeremy Stretch, an analyst at CIBC Capital Market, told CNBC's *Street Signs Europe*.

Impacts: A strong greenback threatens to eat into profits for U.S.-based firms. U.S. firms generate about 30% of their sales abroad. It's also negative for commodity exports.

MEXICO

More immigrants to fight inflation? Mexican President Andrés Manuel López Obrador used his White House visit this week to urge President Biden to allow more legal immigration, which he says would help curb inflation. Mexican Interior Minister Adán Augusto López said that 300,000 new temporary work visas are coming.

Meanwhile, arrests at the U.S./Mexico border are continuing to increase and reached a record in May when the U.S. Border Patrol reported 220,000 apprehensions. Also, 26 of the 53 migrants who recently died after being abandoned by smugglers in a semitrailer in Texas were Mexican.

CHINA

President Biden could lift certain U.S. tariffs on Chinese imports "shortly," though any action would have to avoid harming American workers, Commerce Secretary Gina Raimondo said. She said last month that the U.S. has decided to keep tariffs on steel and aluminum but may drop them on other goods. Expect an initial lifting of around \$10 bil. in tariffs, sources signal.

ENERGY

Worst of global energy crisis may still be ahead: IEA. “The world has never witnessed such a major energy crisis in terms of its depth and its complexity,”

International Energy Agency (IEA) Executive Director Fatih Birol said at a global energy forum in Sydney. “We might not have seen the worst of it yet... this is affecting the entire world.” Like the oil crises of the 1970s, which prompted huge gains in fuel efficiency and a boom in nuclear power, the world may see faster adoption of government policies that speed the transition to cleaner energy, Birol said. In the meantime, security of oil and gas supplies will continue to pose a challenge for Europe, and for other regions, he said. “This winter in Europe will be very, very difficult,” Birol said. “This is a major concern, and this may have serious implications for the global economy.”

Birol also called on G7 countries to include refined products in their effort to cap Russian oil prices. “And if it is pursued, it is not only focused on crude oil, as refined products are also an important challenge for the economies and will be more of a challenge in the months to come,” he said. However, he said he did not know what the price cap level would be.

MARKETS

Corn: USDA’s July WASDE report saw carryover above expectations, pressuring prices. But weather will quickly resume as a market focus as the crop moves into pollination in the heart of the Corn Belt. An extended period of hot, dry conditions would temper market pressure. That will also put even more attention on the Aug. 12 report, particularly if traders think weather conditions were not favorable in July.

Soybeans: USDA had a smaller crop projection (smaller planted area) and lowered ending stocks vs. June. But markets expected an even bigger cut, putting pressure on futures. Like corn, attention will shift back to weather even though the key weather period for soybeans relative to determining yield potential comes in August.

Wheat: Bigger other spring wheat, durum and winter wheat crops helped push total U.S. wheat production well above expectations. That translated into price pressure on wheat futures, but USDA also upped exports, which left carryover basically unchanged versus June. The price downturn as we entered July has spurred demand for U.S. wheat but the surging dollar is a headwind to export demand.

Rice: Price pressure is likely to continue as USDA trimmed exports, which boosted carryover for 2022-23. Part of the supply increase is from higher 2021-22 carryover resulting from disappointing U.S. rice exports. More price pressure and a more-favorable exchange rate for the U.S. dollar would spur needed foreign interest.

Cotton: USDA lowered its non-survey-based cotton production figure as expectations are that there will be more abandonment... four times more than average... with dry conditions centered in the biggest production state of Texas. That will put outside influences like the U.S. dollar back into focus for markets and the downturn from recent lofty price marks could continue.

Poultry: Even as egg sets are rising versus last year and hatchability is starting to improve slightly, harvest is still under year-ago marks. That is keeping support under prices for various broiler parts, with tenders rising to a new record. Turkey supplies are still being impacted by the recovery from bird flu.

Hogs/pork: Cash hog prices remain strong, with prices hitting their highest marks of the year. Hog supplies will be on the rise seasonally, but will remain relatively tight until August. That should keep packers bidding for animals until numbers start to rise. And that in turn will provide support for futures ahead.

Cattle/beef: U.S. beef exports have been a bright spot for the sector, setting an all-time high in May. It appears carcass weights may have bottomed as June ended, but are not poised to shoot higher which will probably translate into carcass weights still below year-ago marks the remainder of this year.

Dairy: Record exports were seen in May with 579.2 mil. pounds leaving the country... the largest exports ever for the month and nearly 5% above year ago. So far this year, the 2.6 bil. pounds of dairy exports is just over 1% above the same period in 2021. Cheese exports for May tailed off from March and April, but still set a record for the month.

OIL PRICES

Treasury Dept. says Russian oil price cap key to avoid new cost shock. A senior U.S. Treasury official said a proposal being explored by several of the world's leading economies to cap the price of Russian oil exports will be crucial for preventing another global price spike to around \$140 a barrel. G7 leaders agreed last week to examine President Biden's price-limit plan.

Separately, the EU and U.K. are planning to ban the insurance of tankers carrying Russian petroleum products. Because the EU, U.K. and U.S. insure an estimated 90% of Russia's seaborne oil shipments globally, the move could deprive the global market of as much as 5 mil. barrels a day of oil and refined petroleum products. Pulling that much Russian product off the market would increase the price of oil significantly, possibly to about \$140 a barrel, according to analysis from the Treasury Department. However, the official emphasized that was based on modeling estimates that may not prove highly accurate. Prices, which rose above \$120 a barrel in June, currently sit below \$100 a barrel.

**RUSSIA
OIL**

Russia garners lots in oil revenue. An increase in the rate of export duty charged on crude shipped out of Russia in July has helped the Kremlin to ride out a slump in flows in the first full week of the month. That helped Russia shrug off a 15% drop in crude shipments the week to July 8, with revenues edging down by just \$3 mil., or 2%.

Russia's current-account surplus hit a record of \$70.1 bil. in the second quarter of the year, as surging revenues from energy and commodity exports helped offset the impact of U.S. and European sanctions imposed over President Vladimir Putin's invasion of Ukraine. For the first six months of 2022, the surplus reached \$138.5 billion.

**FARM
EQUIP.**

Deere CEO John May comments on farm equipment outlook. May was one of *Barron's* best CEOs. Here is what he told the business magazine:

- "Artificial intelligence is making its way to corn, soybean, and cotton fields.

Deere's new sprayers have specialized cameras that can recognize even tiny weeds, and automatically apply herbicide only where needed. That can cut usage of the stuff by 90%... a strong selling point amid soaring inflation. Uptake has been strong."

- "Everybody in the industry was focused on building the best product, like the best tractor, the best planter, or the best combine. We made a big shift and said, no, we want to help our customers do the jobs they do better."

- May, 53, reorganized the company around particular crops, and centralized its software, data, and analytics under a new technology chief. "Today, subscription services can help farmers maximize profits per acre, and machines alert owners to failures before they happen. Tractors coming later this year will drive themselves. Within four years, they'll run on battery power."

- By the end of the decade, May aims to fully automate corn and soybean production... and increase subscriptions from less than 1% of revenue to 10%."

**POPULA-
TION**

The world's population is set to break the 8 bil. mark later this year, the United Nations announced as part of its latest projections. Global population levels are set to increase to 9.7 bil. in 2050 and peak at 10.4 bil. in the 2080s, according to the new figures.

India is expected to surpass China to become the world's most-populous nation in 2023, four years ahead of an earlier estimate by the United Nations. Speaking of India: Police arrested a group of Indian con men who staged a fake Indian Premier League cricket match on a farm and duped Russian gamblers into betting on it.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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