

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Aug. 12, 2022

\$740 bil. bil. tax, climate & health care reconciliation package is on its way to the White House for President Joe Biden's signature.

Some details of the 755-page package...and more on page two...

IRA

It's called the Inflation Reduction Act (IRA), but few private analysts think it will live up to its name. In fact, it could boost prices in the short run.

Climate change provisions: Over \$370 bil. in climate and energy spending such as expanded tax credits for renewable energy projects. It has several provisions to boost electric vehicles, but some note the constraints on EVs: income thresholds to the EV credits and limits on where the vehicles can be manufactured, another demand meant to make sure these vehicles are largely produced in the U.S., but one that means the credits might not be available for a few years.

Greenhouse-gas emissions would be cut 31% to 44% below 2005 levels in 2030, compared with 24% to 35% under current policy, according to Rhodium Group, an independent research firm.

Some fossil fuel concessions were made for Sen. Joe Manchin (D-W.Va.). Provisions call for offshore oil lease sales in the Gulf of Mexico and off the coast of Alaska, and a commitment to take up a separate measure to ease the permitting of new energy projects.

Ag and biofuel climate change provisions include:

- \$1-per-gal. tax credit for biomass-based diesel would be extended through 2024 and then replaced by the clean fuels tax credit that would vary according to the biofuel's carbon rating. A temporary \$1.25 per gallon tax credit would be created for sustainable aviation fuel (SAF) to serve as a bridge to the implementation of the clean fuels credit in 2025. The new clean fuels credit would be in effect through 2027.

- Infrastructure: \$500 mil. for blender pumps and other biofuels infrastructure.
- Roughly \$2 bil. for USDA's Rural Energy for America Program, which funds renewable energy and energy efficiency projects.

- \$9.7 bil. in aid to rural electric cooperatives for renewable energy and energy efficiency projects and another \$1 bil. in loans for renewable energy projects in rural areas.

- Rural electric cooperatives would get direct payments for renewable energy tax credits. Electric co-ops now have to work with third parties to get such benefits.

- Forests: Over \$5 bil. for wildfire prevention and climate resiliency projects in public and private forests.

Some other key provisions of IRA on page two and in future Ag Letters.

OTHER AG PROVISIONS

The following provisions will take time to implement, including a call for public comment for forthcoming rules.

- **Drought aid**: Provides \$4 bil. for the Bureau of Reclamation to combat drought in the West... a last-minute addition.

- **Farm debt relief**: Democrats added \$5.3 bil. in farm debt relief to the package — \$3.1 bil. in assistance to “distressed” borrowers who hold direct or guaranteed farm loans and \$2.2 bil. in payments to farmers who had experienced discrimination in USDA loan programs. Payments would be capped at \$500,000 per producer. The debt relief provisions would be paid for by repealing a debt relief program authorized by the American Rescue Plan in 2021 and later blocked by the courts.

- **Around \$18 bil. for four conservation programs**, starting in fiscal year 2023.

Source: Ag Letter editors

HEALTH &
IRA

Medicare would be allowed to negotiate drug prices, starting with 10 high-priced drugs but negotiations between Medicare and drugmakers wouldn't start until 2026... via the new IRA. The Health and Human Services secretary would negotiate the prices of 10 drugs in 2026... and another 15 drugs in 2027 and again in 2028. The number would rise to 20 drugs a year for 2029 and beyond. Price negotiations would save the federal gov't an estimated \$288 bil. over a decade, according to the nonpartisan Congressional Budget Office (CBO).

Analysis: While CBO estimated the measure would result in as many as 15 fewer new drugs over 30 years, Republicans have trumpeted a University of Chicago analysis projecting as many as 342 fewer drugs over 18 years.

Beginning in 2025, it would cap out-of-pocket drug costs for seniors enrolled in Part D at \$2,000 per year, a policy that could help the approximately 1.4 mil. enrollees who hit that amount each year, according to the Kaiser Family Foundation. Drugmakers generally like the out-of-pocket cap because the federal government will pick up the tab after patients spend the maximum.

The measure would also impose a cap on drugmakers' price increases, though Democrats had to scale back the inflationary cap when the Senate parliamentarian ruled it didn't adhere to Senate rules. The Senate parliamentarian spared drugmakers any penalties for increasing prices in the commercial market.

Bill would mandate free vaccines for Medicare enrollees starting next year.

ObamaCare extension. Savings to Medicare will be used to pay the \$64 bil. it costs in extending for three years (until 2025) subsidized Affordable Care Act/ObamaCare premiums. That way, they wouldn't expire until just after the 2024 presidential election.

Insulin costs. Republicans succeeded in killing one provision that violated Senate budget rules. It would have capped the price of insulin at \$35 a month in the private insurance market. The \$35 insulin cap for Medicare beneficiaries remains in place.

Note: Most of these provisions will not start until several years from now.

MEAT

Americans are expecting less inflation in coming years, according to a recent survey by the Federal Reserve Bank of New York. Respondents' median expectation in July was for an annual inflation rate of 6.2% in one year, down from the 6.8% they expected in June, the regional reserve bank said. Respondents expected inflation in three years to be at 3.2%, down from the 3.6% they expected in June, and inflation in five years to be at 2.3%, down from a previous 2.8%. Economists don't see consumer expectations as a formal forecast but pay attention to such surveys as a sign of popular psychology that can influence price pressures.

LOGISTICS

Infrastructure and logistics updates:

- 12.8 mil. is the projected container imports, in 20-foot-equivalent units, into major U.S. ports in the second half of 2022, down 1.5% from the same period in 2021 and about 5% below the first half of this year, according to the Global Port Tracker.

- Container ship backlogs at ports of Los Angeles and Long Beach fell to a new low of 10 vessels, according to the Marine Exchange of Southern California. Meanwhile, more U.S. importers are trying to renegotiate contract shipping rates set at high levels earlier this year.

SOY
ROADS

Soy-based roads ahead. A soy-based asphalt technology discovered by accident at Iowa State University (ISU) will be nationally available for commercial use next year. Researchers, who have been testing the product for roughly a decade, recently launched SoyLei Innovations, which is developing the rejuvenator product, which is a compound made of soybean oil that is mixed with recycled asphalt.

Rejuvenator can reduce paving costs by as much as 80% compared to projects that use new materials, Eric Cochran, a chemical and biological engineering professor at ISU, said. Each acre of its pavement uses thousands of pounds of soybean oil. A nearly one-acre test site will be on display at the Farm Progress Show in Boone from Aug. 30.-Sept. 1.

FED

A look at the Federal Reserve's balance sheet tightening. When the U.S. central bank began quantitative tightening (QT) in June, it set out to partially unwind roughly \$4.5 tril. in quantitative easing (QE) that was conducted in response to the pandemic. The Fed started by letting up to \$30 bil. in Treasuries and \$17.5 bil. in mortgage-backed securities (MBS) roll off its balance sheet, as opposed to reinvesting the proceeds. *Barron's* notes that starting next month, those caps will rise to \$60 bil. and \$35 bil., respectively, meaning the pace of balance-sheet runoff is about to double. Fed Chair Jerome Powell has suggested QT would go on for two to 2½ years, implying the Fed's \$9 tril. balance sheet would shrink by roughly \$2.5 trillion.

Impacts: Ed Yardeni, president of Yardeni Research, says QT will represent the equivalent of at least a half-point rate hike, and probably closer to a full-point increase. That's not to mention the impact of a 10% run in the U.S. dollar this year, which Yardeni says is equal to another hike of at least 0.5%.

Barron's concludes: "The Fed is entering the unknown, and so are markets."

MARKETS

Corn: Condition ratings remain the major focal point for markets although demand news is always a price-related component, particularly with the Russian war in Ukraine. The *Pro Farmer Crop Tour* later this month will be another important marker to follow up on USDA's first survey-based estimate of the 2022 corn crop.

Soybeans: Weather in August remains the primary focus for traders given conditions this month are key for determining soybean yield potential. As with corn, soybean traders will also keep close tabs on condition ratings each week, providing some potential guidance on how weather is treating the crop. China's demand has not yet been impacted by the political tensions with the U.S. over Taiwan.

Wheat: Ships continue to leave Ukrainian ports even though it appears many of the initial meager shipments have been for corn and oilseeds. Drought in Europe remains a factor with traders also keeping an eye on U.S. spring wheat ratings, which have eased but remain at a lofty level. Attention will also soon shift to U.S. winter wheat planting conditions with harvest of that crop all but finished.

Rice: Futures mounted a rally into August, putting up the biggest weekly gain in rough rice futures since April. But the rise may not be sustainable as a stronger U.S. dollar and weaker prices for wheat are two factors which should keep rice from running too far to the upside... and downside risk could be seen into harvest.

Cotton: Futures have rebounded from their July lows and prices are still elevated relative to historical levels. Traders continue to monitor condition ratings for the crop, which fluctuated considerably to start August. Texas... the biggest cotton state... remains a key focal point for U.S. production prospects as it struggles with drought in key areas.

Broilers/Turkeys: There are no new bird flu infections in the U.S. turkey flock, but the prior depopulations continue to keep supplies constrained. Poultry placements are up, signaling supply increases are coming. Broiler hatchability has improved, but the U.S. broiler flock size remains lower than year-ago levels and that will temper slaughter rates.

Hogs/pork: U.S. pork exports to Mexico remain strong as sales to China stay subdued. Pork cutout values hit new highs for the year as we moved into August. Unless there continues to be easing in ham prices, it does not appear pork prices are going to fall much in the near term. Market-ready supplies will increase through the end of the year, though it appears some hogs are being pulled forward.

Cattle/beef: U.S. beef exports in June hit a new record for the month and the U.S. remained as a net exporter of beef for the third straight month. Import volumes have also continued to drop from month- and year-ago levels. Strong export demand is important with consumers appearing to be backing away from more-expensive beef cuts.

Dairy: June dairy product exports marked a fresh record in June, edging above May levels. Milk powder exports eased, but stronger shipments of cheese, butter and whey more than made up the shortfall. Strong exports are preventing a burdensome buildup of dairy products. Plus, milk production has declined slightly as is seasonally the case.

ERP

USDA ERP payouts edge higher. Phase 1 payments under the Emergency Relief Program (ERP) were \$6.27 bil. as of Aug. 7, up slightly from the initial total signaled by USDA the previous week. The total payments include \$5.49 bil. for non-specialty crop growers and \$782.2 mil. for specialty crop producers for losses suffered in 2020 or 2021. USDA's initial announcement of ERP payments noted just over \$6.2 bil. in total payments made, with \$5.45 bil. to non-specialty crop producers and \$760 mil. for specialty crops.

Below is the breakdown by program year, but first this note: Numbers change daily as records are updated and the public dashboard is only updated every Monday.

2020: 139,842 unique producers.

2021: 120,534 unique producers.

Will Congress legislate ERP for 2022 ag disasters? Our sources say yes. Likely legislative vehicle is a must-pass spending measure for fiscal year 2023, which starts Oct. 1.

CHINA

China/Taiwan/U.S. tensions remain high as China is conducting military exercises near Taiwan, with Taipei saying it will conduct its own military maneuvers. China's Eastern Theater Command announced Aug. 8 it would conduct fresh drills focused on anti-submarine operations and air-to-sea strikes, suggesting Beijing will keep up the pressure on Taiwanese defenses. Meanwhile, Chinese President Xi Jinping has laid out a template for operating ever closer to "space near Taiwan Island" after warning that its military will "never sit idly by" and "whoever plays with fire will get burnt."

President Biden comments: "I'm not worried, but I'm concerned they're moving as much as they are... But I don't think they're going to do anything more." In the meantime, the U.S. is keeping aircraft carrier USS Ronald Reagan and its strike group "on station in the general area to monitor the situation."

Says one China watcher: "What began as a fairly restrained response to House Speaker Nancy Pelosi's visit has escalated into a major show of force. How far will Beijing go the next time it feels compelled to up the ante over Taiwan?"

MEAT

Consumers are choosing to buy chicken and cheaper cuts of beef, Tyson Foods said in its quarterly earning report, a sign shoppers are becoming more cost-conscious as food prices rise. Rather than buying more expensive steaks and loins, consumers are spending more on less expensive chicken and other meats, company officials said. Consumers are becoming more frugal as prices for essentials such as food and gasoline have become more expensive. Companies are paying close attention to shifts in demand as some retailers and consumer companies have issued profit warnings or projected falling sales in recent weeks as customers start to pull back on spending on certain items.

FOOD
AID

USDA rejects GAO finding on Thrifty Food Plan. USDA insists it followed all the applicable rules and processes in 2021 when it updated its Thrifty Food Plan, boosting costs under the program by an estimated \$20 billion. The Government Accountability Office said in an opinion released July 28 that USDA should have submitted the final plan to lawmakers and the Comptroller General under the Congressional Review Act. In an emailed statement to *Congressional Quarterly*, USDA said: "The Department stands behind its process and the resulting decisions which were made in full compliance with USDA's statutory and regulatory obligations," a spokesman said. "The Department is reviewing GAO's decision and, in the meantime continues to provide benefits that help to feed more than 41 mil. people... 1 in 8 Americans... each month."

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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