

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Sept. 23, 2022

\$3.5 bil. in climate-smart funding was announced by USDA Sec. Tom Vilsack... \$2.8 bil. now and \$700 mil. later... far more than the \$1 bil. initially planned.

Vilsack says this will help farmers not only lower greenhouse gas emissions (GHG) but improve their bottom lines.

All 50 states and Puerto Rico are involved in at least one of the projects.

CLIMATE-SMART AG Funding goal: Pilot projects at developing markets for climate-smart commodities in every state.

70 projects were initially unveiled... for farm and enviro groups, minority farmer groups, American Indian tribes... and some big multinational food companies.

Project details, according to USDA, include 13 projects involving beef cattle and other livestock, 13 for fruits and vegetables, 12 corn and soybean projects, nine for dairy operations, six covering cotton, peanuts and nuts, and three for hay, grass and energy crops.

USDA received 1,050 applications for nearly \$20 bil. in total requested funding... why Vilsack accelerated the program.

Funding is coming from USDA's CCC... Commodity Credit Corporation. But tapping of the CCC is being criticized by some GOP lawmakers.

CCC's maximum borrowing capacity is \$30 billion. This is used to cover farm program payments and commodity loans.

Vilsack says USDA has ample funds in the account to support climate-smart projects.

Farm bill debate will take a look at CCC funding, with Congress likely upping total monies but also placing some constraints.

Pilot program will pay producers \$100 per acre or animal unit for voluntary adoption of climate-smart practices that deliver more than that amount in public environmental benefits.

Potential impacts: Projects will reduce GHG emissions by 50 mil. metric tons says USDA... agriculture was responsible for around 634 mil. metric tons of emissions in 2020, according to the EPA.

Accountability is key. USDA will report regularly on the progress of projects. Vilsack says participants will meet periodically and report data and information.

Producers will be able to market their climate-smart commodities to the American public via certificates with tracking numbers.

A website will be available within the next few months to allow producers to apply and enroll in the program. Timeline for usable results from the pilots will vary.

SOME CLIMATE-SMART PRACTICES

The following are just a few of the practices announced under the program:

- **Crop practices:** Cover crops; no-till; reduced till; nutrient management, including precision nutrient management; conservation crop rotation; silvopasture; riparian forest buffer; riparian herbaceous cover.
- **Rice practices:** Residue management, no-till; residue management, reduced till; irrigation water management — alternate wetting and drying for water conservation in rice; conservation crop rotation; nutrient management, including precision application and/or advanced formulations.
- **Livestock practices:** Comprehensive nutrient and manure management plan and implementation; roofs and covers; waste separation facility; feed management to reduce enteric emissions; prescribed grazing; nutrient management; silvopasture.

Source: Ag Letter editors

TRADE
POLICY

Liz Truss acknowledges U.K. trade deal with U.S. is not on the agenda. The new U.K. prime minister made the comments as she arrived in New York on her first overseas trip. President Joe Biden has made it clear that such a deal was not a priority and on the flight from London to New York, Truss admitted it was not on the agenda. “There aren’t currently any negotiations taking place with the U.S. and I don’t have an expectation that those are going to start in the short to medium term,” Truss told reporters en route to the U.N. General Assembly.

U.K. will focus on other trade accord initiatives. Truss said her focus was to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, along with trade deals with India and the six countries of the Gulf Cooperation Council. “Those are my trade priorities,” Truss said.

SPR

Another 10 mil. barrels of crude from the U.S. strategic reserve will be sold ahead of plans by the European Union to ban most Russian oil in December. The Dept. of Energy’s offer comes at a time when global benchmark oil prices have retreated to levels seen before Russia’s invasion of Ukraine. The timing coincides with the Organization of Petroleum Exporting Countries discussing the possibility of curbing production. OPEC and its allies agreed to cut output next month by 100,000 barrels a day. The new sale of 10 mil. barrels will be of sweet crude and contracts will be awarded by Oct. 7.

Background: The latest sale will bring total sales to 165 mil. barrels out of the 180-mil.-barrel target to be sold by the end of next month. In March, the Biden administration authorized the release of 1 mil. bpd from the Strategic Petroleum Reserve (SPR) over a period of six months in a bid to lower oil prices and potentially boost domestic production through contracts with companies to purchase future oil at fixed prices. Volumes in the SPR have subsequently dropped to just 434 mil. barrels, the lowest level since 1984. At the start of the year, the SPR held 593 mil. barrels. Record stocks were in 2010 at 727 mil. barrels.

Dept. of Energy says there is no rush into buying crude to refill the SPR, and that the purchase plans were not pegged to any specific oil price.

Perspective: “I think the market should be freaking out” about the end of SPR draws, said Phil Flynn, energy market analyst at Price Futures Group. “I think when the releases end, it’s going to have the impact of losing a major producer... it will really tighten supplies.” He believes it could add another \$5 to \$10 premium to WTI oil prices.

RFS

Final rule on canola/rapeseed oil RFS pathways at OMB. EPA sent the Office of Management and Budget (OMB) its final rule on Renewable Fuel Standard (RFS) pathways for certain biofuels produced from canola/rapeseed oil. It deals with the analysis of the lifecycle GHG emissions associated with diesel, jet fuel, heating oil, naphtha, and liquefied petroleum gas produced from canola/rapeseed oil via a hydrotreating process. There were 34 comments filed on EPA’s proposal that canola derived renewable diesel, jet fuel, heating oil, naphtha, and liquefied petroleum gas as meeting the lifecycle GHG emissions reduction threshold of 50% required to qualify as advanced biofuels and biomass-based diesel under the RFS.

FOOD
SUPPLY

A lackluster U.S. harvest this year is setting back efforts to ease pressure on the global food supply. Years of bad weather affecting big crop-producing regions have stretched global crop supplies, senior executives from agricultural companies such as Bayer, Corteva, Archer Daniels Midland and Bunge said, and they remain tight. Some said easing the pressure will require at least two years of good harvests in North and South America, which persistent drought makes harder. War’s effects on Ukrainian crop production and export add to the uncertainty.

SCHOOL
MEALS

Boozman opposes universal meal plan. Sen. John Boozman (R-Ark.), ranking on the Senate Ag Committee, would not support a proposal to include in a stopgap government funding bill a return to free school meals to all students, *Politico* reported.

FED

Fed continues aggressive fight against inflation... As expected, the Federal Reserve raised its target interest rate by 75 basis points to a range of 3.00% to 3.25% following the two-day Federal Open Market Committee (FOMC) meeting... continuing the string of active monetary policy tightening that kicked off in March. The Fed remains “strongly committed to returning inflation to its 2.0% objective.”

The so-called “dot plot” of new projections from Fed officials showed the fed funds rate rising to 4.40% by the end of this year before topping out at 4.60% in 2023. That implies another 75-basis point hike in November, followed by a 50-point increase in December.

The post-meeting statement said... “recent indicators point to modest growth in spending and production,” though rising interest rates are expected to slow economic growth. The committee’s quarterly economic projections showed it expects economic growth slowing to 0.2% by the end of this year before rising to 1.2% in 2023.

The unemployment rate is projected to rise to 3.8% this year and 4.4% in 2023... it’s currently at 3.7%.

Inflation is seen slowly returning to in 2025. Rate cuts are not foreseen until 2024.

MARKETS

Corn: With USDA pegging the U.S. corn crop smaller than expected, market will keep its attention on crop ratings but also early field reports. But early harvest tends to be lower-yielding fields. And if yields come out of areas of the western Corn Belt that have had an adverse growing season, that could temper market reactions. Demand news will also factor into the mix, but crop size is king for now.

Soybeans: USDA’s September crop figure was below expectations, but has more potential in some areas with a favorable finish. Supplies remain tight and demand continues to show for U.S. soybeans on the world market. South American competition will come into play, particularly with Argentina adjusting its currency/export policies.

Wheat: U.S. winter wheat plantings are underway and emergence and initial ratings are key. Wheat inspections are running near the upper end of weekly expectations but the uptick is seasonal and export demand is a concern. Attention remains on the Black Sea and whether Russia halts or alters the agreement allowing Ukraine exports.

Rice: U.S. supplies remain less than competitive on the global market. That will make it difficult for rice futures to post much strength. It will take action by other exporting countries to alter market conditions and potentially steer business toward the U.S. That will be a prospect to unfold as harvest of this year’s U.S. crop continues.

Cotton: Global demand concerns continue to hang over the market, overshadowing U.S. crop woes. USDA’s acreage numbers are in question in Texas with few expecting harvested area will match what it estimated this month. That eventually will temper supplies, but an economic slowdown could keep a lid on any supply-related price gains.

Broilers/chicken: Broiler hatchability has improved, hitting 79% recently for the first time since February 2021. Egg sets have also improved versus year ago and headcounts are up as well. But that has pressured processor margins. Chick placements have ramped up enough to pull year-to-date levels ahead of year ago by nearly 1%. Look for pressure on prices ahead.

Hogs/pork: Hog slaughter is rising with weekly tallies the highest since April. But packers’ actions in cash markets will be key. Still, weekly kills should be around 2.5 mil. head during October. Despite the slight increase in hog numbers, cutout values continue strong and that will keep support under cash and futures.

Cattle/beef: Cattle slaughter rebounded out of Labor Day with the strongest post-holiday kill week since at least 2007. Even with steer weights steady and heifer weights up, fed cattle carcass weights were still running under year-ago levels. But with increased numbers, that pushed weekly beef output up more than 1.5% versus year-ago levels. That will put further downward pressure on wholesale prices.

Dairy: U.S. butter prices soared to an all-time high in early September, spurred by strong exports. That has impacted trade flows. U.S. butter exports through July are up 30% from year ago, but imports are up nearly 8%. Even as prices are expected to come down, butter demand is solid as retailers book for holiday needs.

HUNGER

Countries suffering the most from extreme weather/hunger. A new report reviewed by *NPR* showed that the 10 countries that have suffered most from extreme weather since 2000 have also seen hunger increase sharply. The nonprofit media organization looked at the 10 countries that were the subject of the most United Nations appeals for extreme weather-related crises since 2000: Afghanistan, Burkina Faso, Djibouti, Guatemala, Haiti, Kenya, Madagascar, Niger, Somalia and Zimbabwe. The report found that these countries have seen the number of people suffering acute hunger... when food is scarce... more than double in the last six years to 48 mil., with nearly 18 mil. on the brink of starvation, when people succumb to that scarcity of food.

OFF-FARM
INCOME

More of America's farmers rely on off-farm income at the same time that agriculture accounts for a smaller share of rural employment nationwide, said a University of Missouri study. The analysis, commissioned by agricultural lender CoBank, said the majority of principal farm operators worked off the farm and off-farm income accounted for 82% of farm household income. Only the largest operations, with gross cash farm income above \$350,000 a year, generate enough revenue to provide more than half of family income in a year; many farms are so small they make little or no money at all.

DISASTER
AID

Ag disaster aid for eligible 2022 crop and livestock producers is widely expected to be part of a post-election, lame-duck session of Congress that will be part of an omnibus spending measure for the remainder of fiscal year (FY) 2023. That makes some sense because it will give more time to see how the 2022 ag sector season unfolds (potential hurricanes, blizzards, etc.). The level of potential disaster aid is murky because USDA reportedly has told lawmakers there are still around \$3 bil. in ag disaster aid funding remaining for 2020 and 2021 disasters. So, at this time, it is difficult to say what dollar amount Congress will settle on by year's end.

USDA still has not announced Phase 2 for either the Emergency Relief Program (ERP) or Emergency Livestock Relief Program (ELRP). Recall that the White House/USDA requested \$6.5 bil. in disaster aid... \$1.5 bil. for ag disaster assistance... in the Continuing Resolution.

Other provisions: Lawmakers are also eyeing the continuing resolution as a vehicle for Food and Drug Administration user fees and school meals, among other provisions.

SUPPLY
CHAIN

Supply chain improvement? Port of Long Beach Executive Director Mario Cordero expects the pandemic-era surge in U.S. consumer demand that snarled supply chains will start to cool, with evidence of a deceleration starting to show in weaker inbound container arrivals. He spoke in an interview at *Bloomberg News'* New York office Monday. The nation's No. 2 gateway for trade moved 806,940 20-foot container units last month, down 0.1% from August 2021... which was its busiest August on record. Imports dropped 5.6% and exports gained 1.6%. Through August, Long Beach moved 6.6 mil. TEUs, a 4% increase from the same eight-month period last year.

Cordero also expressed confidence that dockworkers and their employers at West Coast ports will keep cargo moving as they negotiate a new labor contract, avoiding a repeat of the stoppages and delays that plagued supply chains in the 2014 talks.

Labor union voting on the tentative rail accord started Thursday and is expected to go into October before final results are known.

Congress would step into the matter should the agreement be voted down.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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