

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Some key legislation ahead...

Focus is on must-pass bills before the end of the fiscal year Sept. 30 and ahead of Nov. 8 elections.

Some will impact the ag sector.

CONGRESS A stop-gap spending measure is a priority for immediate attention, said Majority Leader Chuck Schumer (D-N.Y.), to fund the gov't from Oct. 1 forward... beginning of fiscal year (FY) 2023.

A White House supplemental spending request of \$47 bil., including \$13.7 bil. in funds to bolster Ukraine's defenses, shore up federal emergency funds, \$22.4 bil. to reinforce efforts to combat Covid-19 and \$4.5 bil. for monkeypox viruses. The administration also called for \$6.5 bil. to help states recover from natural disasters.

USDA would get \$1.5 bil. for crop & livestock disasters in 2022. Farm-state lawmakers will likely add billions to the White House request... and this will likely go out via USDA's Emergency Relief Program... ERP.

Some other ag sector requests could be part of the continuing resolution... CR.

Extension for livestock mandatory price reporting and possibly reforms in cattle marketing... a pair of bills that came out of the Senate Ag Committee in June. But some wonder if the bills have the necessary 60 votes to pass the Senate.

Child nutrition will also be a focus... to raise the reimbursement rates for school meal programs... and expand eligibility.

WRDA... Water Resources Development Act. This would authorize waterway improvements and spending for flood control and coastal resilience. This is regularly enacted by Congress with bipartisan support every two years. House passed its bill by 384-37 vote in June; Senate passed by 93-1 a substitute bill. Need to conference and pass final legislation before end of the year.

Other issues facing a packed September agenda include defense authorization, action on judicial nominations, policies related to environmental permitting, election rules, same-sex marriage and U.S./China competition trade issues.

Trade Adjustment Assistance (TAA) benefits have expired, and House Democrats want to include this in the CR. Republicans have criticized the program as too costly. Efforts underway to reduce tariffs on imports from developing countries... Generalized System of Preferences expired in 2020... both parties have supported it in the past.

Regarding Section 301 tariffs... some lawmakers want to exclude some Chinese imports from punitive tariffs under Section 301. A Senate majority agreed on a non-binding motion to include it before but the trade provisions were dropped.

OTHER ISSUES

• **Environmental permitting.** Streamline the process under the National Environmental Policy Act and Clean Water Act... and prioritize permitting for critical energy infrastructure projects. Also overhaul litigation process to reduce "excessive" delays. Democratic leaders made a deal with centrist Sen. Joe Manchin (D-W.Va.) to hold a vote on the proposed changes in exchange for his support on the reconciliation measure. But Progressive Democrats in the House oppose linking permitting reform with the CR.

• **Immigrant farmworker status.** Overhaul of U.S. ag guestworker visa program (HR 1603) passed House; action on a Senate bill possible.

• **Freight rail:** Give the federal regulator overseeing freight rail more power to deal with service complaints (HR 8649) is getting a push from House Dems.

• **Wild cards:** Some last-minute surprises usually surface on must-pass measures based on the recent past.

Source: Ag Letter editors

UKRAINE

A rethink for Ukraine grain exports. Russian President Vladimir Putin said he wanted to discuss reopening a U.N.-brokered deal that allows Ukraine to export its grain via the Black Sea after accusing Kyiv and the West of using it to deceive developing countries and Russia. Market impact: Wheat futures surged.

Putin also warned of a looming global food crisis and said he would discuss amending the landmark grain deal with Ukraine to limit the countries that can receive cargo shipments. Putin said only two of 87 ships, carrying 60,000 metric tons of products, went to poor countries, as he accused the West of “acting as colonial states.”

FOOD
PRICES

First time in six months USDA does not increase food price inflation outlook.

USDA held its forecasts for all food, food at home, & food away from home steady with its July outlooks. The pause came despite higher forecasts for some commodities. But food price inflation is still expected to be at its highest level in more than 40 years.

Details: U.S. consumers are expected to see the Consumer Price Index (CPI) for all food to be up 8.5% to 9.5% in 2022, with food at home (grocery store) prices seen up 10% to 11% and food away from home (restaurant) prices to be up 6.5% to 7.5%. Those marks are unchanged from the agency’s outlook in July and ends a string of six straight months where USDA increased its outlooks for all three categories. However, USDA did upwardly adjust price forecasts for several individual commodities or categories.

Prices for many agricultural commodities fell sharply, with USDA detailing that corn prices fell by 8.5%, soybeans by 11.4% and wheat by 22.7%.

Upward changes to some individual grocery items continue. USDA now sees price inflation for meats, poultry and fish at 9.5% to 10.5% in 2022, up from 9% to 10% in July, with increases in the rate for pork to 8% to 9% (7% to 8% prior) and other meats at 13% to 14% (12% to 13% prior). Price forecasts for beef and veal, poultry, and fish and seafood were kept unchanged from the July outlook.

Egg prices, one of the most-volatile items, are seen up 24.5% to 25.5% in 2022, up from 19.5% to 20.5% in the July forecast.

Other upward adjustments came in fruits and vegetables, now seen up 7% to 8% (6.5% to 7.5% prior), sugar and sweets are expected to rise 8.5% to 9.5% (7.5% to 8.5% prior), nonalcoholic beverages are expected up 8.5% to 9.5% (7.5% to 8.5% prior) and other foods are forecast to rise 12.5% to 13.5% (12% to 13% prior).

EPA

Lawyer: IRA will not strengthen EPA case to regulate GHGs. The *New York Times* and others noted the Inflation Reduction Act (IRA) signed into law amends the Clean Air Act to regulate greenhouse gas emissions (GHGs). A lawyer told us: “I read through the amendments and that is not what the amendments do. Instead, they provide money for this initiative. Undoubtedly, the Democrats wanted to include this verbiage to strengthen the case that Congress authorized EPA to regulate GHGs but in my view the effort will fall short because that is not what the amendments actually do. And in point of fact the amendments could not do that because regulatory type of mandates would have violated the Byrd Rule. Hence, much ado about nothing.”

NETHER-
LANDS

Dutch ag minister resigns amid widespread pollution protests. Dutch ag minister Henk Staghouwer resigned after nine months, saying he could not lead an ambitious overhaul of the Dutch farming sector as it moves to comply with the EU’s Nitrate Directive and curb emissions from fertilizer and livestock. He will be temporarily replaced by former agriculture minister, Carola Schouten. Dutch leaders called for a 30% reduction in the country’s livestock, a step it described as necessary in delivering on its climate goals. But in some areas, the cuts could reach as high as 70%... which Dutch farmers argue would force many to either massively scale back production or to shut down operations completely. The planned cuts sparked massive protests this summer, where crowds used tractors, trucks and bales of hay to block canals, roads and halt activity at key distribution centers. Though it is just slightly larger than the state of Maryland, the Netherlands is the world’s second-largest exporter of ag goods, behind only the U.S.

WTO Director-General Ngozi Okonjo-Iweala said the following combination of trade disruptions will continue to cast a pall on the global economic recovery:

- Russia's war with Ukraine is fueling an escalating crisis in global energy and food markets.
- Bottlenecks continue to plague shipping routes and the line of container vessels waiting outside Germany's North Sea ports has increased in recent weeks.
- China's "Covid Zero" approach to combating the pandemic continues to shut down some of the world's largest cities, ports and manufacturing hubs.
- This summer, extreme weather events demonstrated the devastating impact that climate change can have on supply chains in many of the world's largest economies.

"The outlook is not promising," Okonjo-Iweala told *Bloomberg News* in an interview on the sidelines of the Africa Adaptation Summit in Rotterdam. "We are in a risky environment. We are still in multiple crises and exogenous shocks."

Corn: Crop size is at the forefront of attention for traders. USDA will first include actual field samples in its September estimates on the corn crop size and expectations are that will echo what the Pro Farmer Crop Tour found... reduced yield potential in some key states. That will continue to keep a tighter supply situation in play. Acreage could also be adjusted in September, though we expect little change.

Soybeans: Much of the ability for soybeans to add bushels has likely passed. Now it will be on weather to finish out the growing season and fill all those pods on plants found during the Pro Farmer Crop Tour. Trade flows remain a focus with countries starting to book additional supplies for the 2022-23 marketing year.

Wheat: Winter wheat planting is underway as spring wheat harvest is winding down in the U.S. Global situation continues as a backdrop with Russia's Vladimir Putin raising questions about the deal to get Ukraine grain into world market channels, which could keep a floor under wheat prices even as U.S. supplies are uncompetitive.

Rice: Attention remains on the global supply situation, with drought in China and a huge population it needs to feed. That has helped U.S. rice prices remain elevated even as demand for U.S. rice on the global market stays tepid. This suggests downside risk for U.S. prices, which could eventually spur some export demand.

Cotton: Focus is on the global economy as activity is slowing in several areas, raising questions about consumer demand for textiles and clothing. Additionally, the easing of oil prices is starting to put potential competitiveness back in for synthetic fibers. Lock-downs in China also remain a concern, particularly if they impact trade flows.

Poultry: Turkey is the focus as the Thanksgiving holiday comes into focus. Negative impact to the U.S. turkey flock from bird flu has the industry starting to rebuild numbers amid positive margins. But the rise in output will not be in time for the traditional turkey holiday and that will keep prices for available birds higher than usual and adds another cost to holiday celebrations.

Hogs/pork: Hog futures weakened despite their bigger-than-normal discounts to the cash index. The hog supply is still expected to slowly increase seasonally, though we doubt numbers will rise as much as USDA data implied. Still, that will allow packers to further pressure cash offerings, which should improve their processing margins.

Cattle/beef: Cattle slaughter in late August was over 17,000 head higher than year-earlier levels, pushing up beef production by nearly 3%. Live cattle futures have corrected to the downside from their mid-August highs. Even as beef output is up, lofty prices at the store are keeping consumers selective in their protein purchases.

Dairy: U.S. milk production in July rose just 0.2% from year ago at 19.14 bil. pounds, with just a modest month-to-month growth in the dairy herd. But milk per cow continues to improve as the U.S. dairy herd in July was still 67,000 head smaller than July 2021. Higher feed costs and a midyear dip in milk prices tempered expansion.

WATER

Water trading is accelerating. The S&P Global Water Index, which tracks 50 companies from around the world that are involved in water utilities, infrastructure, equipment and materials, has outperformed the S&P Global Broad Market Index by more than 3 percentage points per year since its beginning in late 2001. So far this year, the Global Water Index return has been nearly 5 percentage points higher than the S&P Global BMI. Recent reports from the World Economic Forum estimate the global water industry at \$483 billion, as of mid-2022. Investors want in: There were 23 water funds launched over the last five years, with a collective \$8 billion in assets, according to Morningstar data.

AUSTRALIA

Australia's projected bumper wheat crop running into supply-chain constraints. The country is projecting its second-largest wheat harvest ever following above-average rainfall on its east coast. The *Wall Street Journal* reports the yield could bring a windfall to farmers at a time of record-high wheat prices and help calm global markets concerned about food security. But much of the country's storage is already full, ports are operating at capacity and exporters face trouble finding capacity in a bulk shipping sector that has been knocked sideways over the past year. Russia's invasion of Ukraine has disrupted grain-supply routes that were already strained by the pandemic. Australia has been exporting more than 75% of its grain due to outsized harvests over the past two years. But container shortages and potential shipping delays have left Australian wheat fetching less than the average global price, undercutting potential financial gains.

CHINA
TRADE

China's export growth slowed as global demand weakened and domestic Covid-19 lockdowns and heatwaves hit production. Exports increased by 7.1% year on year in August, to \$314.9 billion, the weakest gain since April, versus 18% in July. Imports grew just 0.3%, leaving a trade surplus of \$79.4 billion. Asian stock markets slumped in response. The MSCI index of Asia-Pacific shares fell to its lowest level in two years.

China's exports to the U.S. shrank for the first time in more than two years while shipments to Russia surged as slowing economies and the war in Ukraine are shifting global trade flows along geopolitical fault lines. China's exports to the U.S. fell 3.8% in August from a year earlier, the first contraction since May 2020. Exports to Russia surged 26.5% as Chinese brands filled a gap left by departing Western companies.

Bottom line: The larger-than-expected slowdown in export growth is raising fears that the engine of the world's second-largest economy is sputtering, as fresh Covid lockdowns in major Chinese cities are further restraining spending and the world economy edges closer to recession. Meanwhile, shipping companies are trying to realign their capacity with an expected softening in consumer demand. Maersk, for instance, announced on Sept. 2 the cancellations of four China-to-North America sailings this month.

CHINA AG
TRADE

China's August soybean imports remain sluggish. China imported 7.17 MMT of soybeans in August, down 9.0% from July and 24.5% less than year-ago. That was the smallest August import tally since 2014. Soybean demand has been weak and Chinese crush margins have been negative since mid-April, with crushers in the key processing hub of Rizhao losing 519 yuan (\$74.80) for each metric ton of soybeans processed as of Sept. 5. Through the first eight months of this year, China imported 67.08 MMT of soybeans, down 8.6% from the same period last year.

China meat imports rise slightly from July but below year-ago. China imported 660,000 metric tons of meat during August, up 3.1% from July but 13.2% below last year's tally. The year-over-year slowdown was due to reduced pork imports.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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