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Dear Client: Washington, Dec. 2, 2022

Some food prices are coming down...
But food inflation is still with us.

FOOD PRICES

A look at 2022: The Consumer Price Index (CPI) for all food in 2022 is forecast to rise 9.5% to 10.5% while food at home (grocery) prices are forecast up 11% to 12% with an increase for food away from home (restaurant) prices of 7% to 8%. Those marks would be the highest for all food since a gain of 11% in 1979 and the highest for grocery store prices since a surge of 12.7% in 1974. Restaurant prices are tracking for the biggest annual increase since a 9% jump in 1981.

Shifts within various food categories compared with USDA's October outlook...ranges for seven food categories and one aggregate category were revised upward, while three food price categories were revised downward.

Fed policies and declines in commodity prices are likely keeping overall outlooks steady. "The continuing increases in the Federal funds (interest) rate by the Federal Reserve place downward pressure on prices, and prices for unprocessed agricultural commodities have decreased each month since peaking in May 2022," USDA noted.

Impact of bird flu is being felt relative to egg prices and USDA said the situation needs to be monitored closely with over 50 million birds in 267 flocks in 46 states affected.

USDA adjusted upward its forecast ranges for fats and oils, sugar and sweets, and nonalcoholic beverages. "Economy-wide factors, including ongoing supply-chain issues and energy, transportation, and labor costs, have contributed to increases in prices across food categories," USDA detailed. "However, recent declines in agricultural commodity and energy prices are expected to ease price increases across these categories through the remainder of 2022."

Compared with 2021, USDA sees 2022 prices for fats and oils rising by 18.5% to 19.5% and sugar and sweets are predicted to increase between 10% and 11%, while non-alcoholic beverages prices are predicted to increase between 10.5% and 11.5%.

Areas where USDA trimmed its forecasts: Beef and veal prices are now seen rising 5% to 6% versus the October outlook for increases of 5.5% to 6.5%, while dairy product prices are now seen up 11.5% to 12.5% compared with 12% to 13% in the October forecasts. "Beef and veal prices declined by 0.8% in October 2022 and were 3.6% lower than October 2021," USDA said, noting they were the "only food category to experience a decline year over year." But that is coming off large increases in 2020 and 2021.

Upshot: Grocery store prices are rising by the biggest amount since 1974.

USDA LOOKS AT 2023

- USDA maintained its forecasts for all food prices to rise 3% to 4% in 2023, with increases for grocery store prices of 2.5% to 3.5% and restaurant prices of 4% to 5%.

- Despite being down sharply from its forecasts for 2022, the price increases remain well above the 20-year average for all food prices to rise 2.4%, grocery prices to be up 2% and restaurant prices to increase 2.9%.

- No food categories are expected to see double-digit percentage increases in 2023, with flat prices for fresh fruits and vegetables; no food categories are currently forecast to decline from 2022 levels.

Wild card issues: Covid and logistical constraints brought major surprises and near monthly changes to USDA's food price forecasts in 2022. Issues that could force more changes in 2023 include production-impacting weather in the U.S. and other key ag producers; continuation of bird flu breakouts; a lengthy Russia/Ukraine war and impacts on ag exports; and various geopolitical issues... especially pertaining to China and Taiwan.

Source: USDA and Ag Letter editors

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FOOD SECTOR

Turbulence in supply chains is cracking the years-long stability that globalization brought to the food sector. Food-price inflation hit multi-decade highs this year in the U.S. and elsewhere, outpacing overall consumer prices. The *Wall Street Journal* reports that food-industry executives and economists point to manufacturing and transport disruptions stemming from the pandemic and the impact of Russia's invasion of Ukraine on energy and grain prices. The impact of those issues may be receding, but analysts expect price swings to be more frequent. Huge gains in farming and food-manufacturing productivity, globalization and lower transport costs have all served to expand choice and hold down prices for consumers. Some suppliers say they will try to source more goods closer to home, but that will be a heavy task since almost a quarter of overall global food exports now have a foreign component, according to the World Trade Organization.

INFLATION

Fed's Williams: Inflation fight could last into 2024. New York Fed President John Williams points to signs that price pressures are easing, but sees inflation remaining above 3% in a year, still above the Fed's 2% target. "There is still more work to do," said Williams in a speech this week. Williams, who serves as a key lieutenant to Fed Chair Jerome Powell, did nothing to push back against expectations the central bank will lift rates by a half percentage point at its policy meeting Dec. 13-14. Inflation using the Fed's preferred gauge, the personal consumption expenditures price index, rose 6.2% in the 12-months ended September. Williams said he expects the inflation rate to slow to between 5% and 5.5% by the end of this year, and to between 3% and 3.5% next year.

Perspective: The Fed's projections in September were for core PCE inflation to be at 3.1% for 2023; 2.3% yet in 2024.

TRUCKING

DOT rejects farm groups' request for longer trucker driving time. The Biden administration denied a request for truckers who transport livestock, insects and aquatic animals to be exempt from some federal driving time regulations. Several farm groups asked for an exemption to allow for additional time on the road on behalf of truckers moving the animals. The Federal Motor Carrier Safety Administration (FMCSA) rejected the request, saying it wouldn't meet an acceptable safety level. "Research studies demonstrate that long work hours reduce sleep and harm driver health, and that crash risk increases with work hours," FMCSA said in its decision.

Background: The hours-of-service regulations place limits on when and how long a trucker may drive. Animal and livestock haulers have long sought leniency from the rules, arguing they could put the well-being of livestock at risk during transport or burden drivers, particularly in rural areas.

The agency received more than 350 comments on the exemption request. The National Transportation Safety Board, Commercial Vehicle Safety Alliance, Truckload Carriers Association, Iowa Motor Truck Association, and Animal Welfare Institute urged the agency to deny the request.

RAIL STRIKE

Top industry groups appeal to Congress to head off railroad worker strike. More than 400 groups on Monday called on Congress to intervene in an ongoing railroad labor standoff that threatens to idle shipments of food and fuel and strand rail travelers while inflicting billions of dollars of economic damage. Industry groups included the U.S. Chamber of Commerce, National Association of Manufacturers, National Retail Federation, American Petroleum Institute, National Restaurant Association, American Trucking Associations, and the American Farm Bureau Federation.

Background: After a tentative deal was reached in September, four key unions voted to reject the agreement, though eight approved the measure.

No strike will take place before Dec. 9… the unions agreed on a cooling off period until that date to give negotiators time to reach an accord.

If no agreement is reached, Congress can and will enter the debate with a quick resolution. At least that is what industry officials and market traders believe.

RICE

Rice futures recently rose above $18 per hundredweight (cwt.), touching their highest levels since June 2020, supported by a fall in supply and expectations of rising demand from China and European countries.

USDA recently lowered its 2022 U.S. rice production forecast to 164.3 mil. cwt., about a mil. less than October's report following a downward revision in the yield estimate. Global supplies were also reduced by 2.5 mil. tons to 686.8 mil., on lower beginning stocks for India and smaller production for Pakistan, Bangladesh, Nigeria, and Sri Lanka.

Meanwhile, prices of rice shipped from India edged up in November, as limited supplies are available for exporters amid aggressive government buying of paddy to encourage higher domestic output. In Bangladesh, rice prices have also remained elevated despite the government's latest efforts to stabilize the market, including allowing imports and duty cuts.

MARKETS

Corn: U.S. export sales of corn have remained sluggish even as the typical window for export sales of new-crop U.S. supplies remains wide open. Transportation on U.S. waterways is a factor in the actual shipments and the potential for a U.S. rail strike remains unsettling. A strong U.S. dollar is a challenge on the global market.

Soybeans: South American weather is the focus with extremely dry conditions in Argentina raising early season concerns. U.S. export sales have picked up in recent weeks, largely due to sizable sales to China. But there are concerns with the Chinese market and demand there given the continued Covid lockdowns that have limited its economic activity.

Wheat: Global attention remains on the Black Sea and the recently extended agreement will keep Ukrainian supplies moving to market. For the U.S., dryness remains the biggest concern and that has kept U.S. prices elevated for HRW wheat in particular. U.S. winter wheat condition ratings remained near 30-year lows as the crop headed to dormancy. But the strong dollar has helped crimp export demand, which remains extremely sluggish.

Rice: Disappointing harvest in places like California provided support for rough rice futures ahead of Thanksgiving. Plus, sales of U.S. rice were solid in the week before. But that may not continue for an extended period given U.S. price levels and a stronger U.S. dollar, which has the U.S. grain struggling on the world market.

Cotton: Economic conditions remain a key factor for cotton… both in the U.S. and around the globe. Recent cancellations of U.S. sales to China and Pakistan are raising concerns. A broader global slowdown could provide more pressure for cotton futures ahead. Futures have been volatile in recent weeks and that could continue.

Cattle/beef: Carcass weights remain elevated but the rate of gain is still far below the pandemic-induced surge seen in 2020. As feedlots become more current in early 2023, weights should also come down. USDA's Cattle on Feed report confirmed feedlot inventories will continue to tighten, especially during the second half of 2023.

Hogs/pork: Rising slaughter supplies are expected to keep pressure on cash hog prices and make it challenging for futures to rally. Hog weights are edging up but not dramatically… and should peak about the time hog supplies do. Traders will be watching cash hog and pork markets for signs of a seasonal low through the holidays.

Poultry: While some restaurants are pushing chicken due to the fall in prices, it has not become overly widespread. More outlets will need to jump on the bandwagon if the market is to regain traction. For now, most restaurant operators seem content to pocket improved margins from higher menu prices, lower food costs and rising traffic.

Dairy: U.S. milk production grew for the fourth straight month in October, at 18.85 bil. pounds, up 1.2% from year-ago levels. Higher milk per cow and slightly higher cow numbers contributed to the rise. Despite high input costs, U.S. producers have demonstrated remarkable resilience to grow production in recent months.

WORLD TRADE

<u>WTO: Trade growth likely to slow as demand weakens</u>. The World Trade Organization (WTO) said on Monday its goods barometer had fallen below trend, indicating that trade growth was set to slow in the closing months of 2022 and into 2023. The Geneva-based body said its barometer fell to 96.2 from its previous reading of 100, reflecting "cooling demand for traded goods."

GRAIN TO AFRICA

<u>A new effort to move grain to Africa</u>, with the U.S., France, U.K., Sweden, Austria and Canada all committing financial resources to the effort. The program was unveiled by Ukraine President Volodymyr Zelenskyy. Ukraine originally proposed the action at the G20 summit and the "Grain from Ukraine" effort was formally unveiled over the past weekend. *The Guardian* reports the effort would aim to send up to 60 ships of grain to poorer countries in Africa. Countries contributing to the effort include $30 mil. from Canada, $20 mil. each from the U.S. and France, $9.5 mil. from Sweden, $6 mil. from the U.K. and $3.9 mil. from Austria. *Politico* reported the European Commission said it would finance the transport of 40,000 metric tons of Ukrainian grain in the effort.

UKRAINE/ RUSSIA

<u>A look at Ukraine and Russia grain exports</u>:

<u>Ukraine grain exports slowed in November</u>. Exports of Ukraine's grain will not reach 3 million metric tons (MMT) in November as Russia tries to limit ship inspections at ports, Ukraine's Infrastructure Minister Oleksandr Kubrakov said. That would be down from 4.2 MMT of grain that left Ukrainian ports in October. Kubrakov said 77 ships were queuing to pass inspection in Turkey while the three Black Sea ports were using only 50% of their capacity. Since July 1, Ukrainian grain exports totaled 17.2 MMT, down 31.9% from the same period last year, including 9.1 MMT of corn, 6.6 MMT of wheat and 1.4 MMT of barley.

<u>Russian grain exports increased in November</u>. Black Sea consulting firm SovEcon estimates Russia will export 4.9 MMT of grain in November, up 200,000 MT from October, including 4.4 MMT of wheat. Grain exports would be up from 3.958 MMT in November 2021. After a slow start to 2022-23, Russian grain exports have gradually built after record production.

CHINA

<u>Protests unlikely to budge Beijing on 'zero-Covid'</u> as recent protests in China do not yet pose a threat to the Communist Party regime, say intelligence sources. But Beijing's reaction will include requiring enforcement of existing Covid-19 restrictions, mass arrests of protesters without a military crackdown, and knee-jerk reactions to foreign pressure, suggesting no significant easing of China's "zero-Covid" restrictions and, subsequently, its economic woes. Protests occurred after local authorities said Nov. 25 that at least 10 residents died in an apartment fire in Urumqi, the capital of Xinjiang province. Citizens across China blamed these deaths on the inability of fire and rescue services to access the building due to Covid-19 restrictions. Protests began in Urumqi and were followed by protests in several other Chinese cities.

<u>This is seen as a major test for Chinese leader Xi Jinping</u>, with some protesters calling for him to step down. The wave of civil disobedience is unprecedented in mainland China since Xi Jinping assumed power a decade ago. The protests initially brought some major market impacts in equities and oil prices here and abroad.

<u>The White House issued a statement in support of peaceful protesters in China</u> after demonstrations against the country's zero-Covid policy intensified. A White House National Security Council spokesperson said, "We think it's going to be very difficult for the People's Republic of China to be able to contain this virus through their zero-Covid strategy."

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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