

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Nov. 18, 2022

Midterm elections are 'over'... now what?
Dems kept control of Senate...
GOP will lead the House chamber.
Elections were very close on both counts.

ELECTIONS

Result: Gridlock but not on all items. Compromise between the political parties and the White House is needed to get anything done.

Where compromise is possible or must come:
 Spending issues, including still-to-do fiscal year (FY) 2023 and a fresh look toward FY 2024, which begins Oct. 1, 2023. Debt limit will have to be either suspended or increased. White House and Democrats want to accomplish this beyond 2024 elections, but some conservative Republicans think they have "leverage" to extract some "gimmies," but that has proven to be a failed strategy in the past. A gov't shutdown is possible on both topics if cooler heads do not prevail.

Border security and immigration reform is possible, but the past shows these are very sensitive items. Both parties may want to work deals on child-care tax credit (Dems) and border security issues (GOP).

GOP House Speaker is an unknown even though Kevin McCarthy (R-Calif.) won initial secret ballot when just a majority of his caucus was needed. Come January, he faces hurdles from arch conservatives in his party... Freedom Caucus... to get needed 218 votes. That means some changes in how the House operates will be needed for McCarthy to get the votes he needs.

Senate Majority Leader Chuck Schumer (D-N.Y.) returns to that post.

A Georgia Senate runoff Dec. 6 is important. Reason: If Dems get 51 votes... it is 50/49 now... that means full majority members on all panels. The Georgia race is between incumbent Raphael Warnock and GOP challenger Herschel Walker.

Elections will impact the new farm bill debate.

Senate Ag Chair Debbie Stabenow (D-Mich.) will stay in that role... she told *Politico* the coming farm bill debate and process as likely one of the few things that can get done in the next two years. Stabenow has proven to be a tough negotiator in past farm bills.

House Ag panel will likely be led by G.T. Thompson (R-Pa.)... unless there are changes to how panel leaders are chosen. If so, Thompson would still likely be chosen to head the committee. He will focus on improving the farmer safety net, and making sure crop insurance is not negatively impacted.

Will there be a new farm bill in 2023? Veteran farm bill watchers say the Senate can reach the finish line, but they are not so sure about the House.

FARM BILL TOPICS

Senate Ag Chair Stabenow will focus on (1) specialty crops, (2) urban ag, (3) food and nutrition spending and (4) conservation program funding. Add in climate change ag-smart programs.

Farm bill funding: Key will be whether congressional leaders from both parties provide more than baseline funding for the new farm bill. More funding is needed to get farmer safety net changes such as higher reference prices.

Power of presidential veto: If the GOP-led House approves a farm bill that doesn't garner many Democratic Party votes, President Biden can and will veto and the GOP will not have the votes to override.

Food and nutrition funding is always the key topic in a farm bill debate. Republicans will try to get work requirement language... a sensitive topic with Democrats. If no compromise is reached, a one-year farm bill extension is likely.

Need to educate new congressional members and staff. This is particularly the case in the House and why some say the chamber may not have enough time to finish a bill in 2023.

Source: Ag Letter editors

BIDEN/
XI

President Joe Biden and Chinese President Xi Jinping held their first in-person meeting since Biden took office. The confab was in Bali, Indonesia. During the meeting, the leaders pledged to conduct high-level talks to collaborate on certain issues... like the economy, health, agriculture and climate change... and put guard rails on confrontation.

The talks could provide a key venue for de-escalation on contentious issues... like Taiwan... and resumption of limited collaboration.

Biden came away from the meeting saying, “there need not be a new Cold War.”

Other meetings slated. Biden noted that U.S. Secretary of State Antony Blinken and Chinese top diplomat Yang Jiechi will meet. Blinken will soon visit China to follow up on boosting communications. Beijing paused U.S./China collaboration on climate issues after U.S. House Speaker Nancy Pelosi (D-Calif.) visited Taipei, Taiwan, in August.

Bottom line: While Taiwan remains an issue, the two sides agreed to resume climate talks, and touched upon supply chain stability, as well as health and food security. The language was also warmer, noting that there should be more incentives to work together as opposed to decoupling from “each other’s economic development.” Biden: “We were candid and clear with one another across the board.”

CHINA

USTR on China. U.S. Trade Representative (USTR) Katherine Tai said at the *Bloomberg New Economy Forum* in Singapore that the Biden/Xi meeting was a “powerful signal” to the world, but American tariffs remain in place on Chinese imports because “the underlying issues are still there.”

Tai said China has not yet resolved the core problems that propelled her predecessor to impose tariffs on hundreds of billions of dollars worth of Chinese exports in 2018... namely Chinese intellectual property theft and forced technology transfers.

CLIMATE
& AG

Vilsack: Farmers, not politicians, will keep climate on congressional agenda. USDA Secretary Tom Vilsack believes that even if Republicans gain control of the House of Representatives as is now likely, climate change will remain on the agenda even as some Republicans suggest the matter will be downplayed under GOP control of the chamber. Vilsack said he was most impressed by how American farmers, ranchers and producers have been supportive. “I would anticipate and expect that climate will continue to be a focus not because I want it or not because any member of the House or Senate wants it, but most importantly because farmers, ranchers and producers recognize and appreciate the importance of it,” Vilsack told reporters from the COP27 conference in Egypt.

Vilsack noted farmer interest in the climate-smart agricultural commodities effort and extra funding for environmental programs has been high, adding the total for the climate-smart commodities effort has been increased to \$3.1 bil. from \$2.8 bil., with the extra funds to allow for 65 new projects. He also urged private investors to step up efforts in funding startup technology companies that focus on climate and agriculture.

Different views from likely incoming House Ag Committee Chair Thompson. He signaled that Republican control of the panel would shift attention from the climate issues backed by the Biden administration and if he led the panel in the new Congress, it would focus more on making conservation and other programs more economically beneficial for farmers. With the Senate remaining under Democratic control, that sets the stage for a potential key issue during the coming farm bill debate. Republicans also want to know more about Vilsack tapping the CCC Charter Act for climate-smart ag funding.

BLACK
SEA DEAL

Russia expected to extend Black Sea grain export deal... the United Nations-brokered deal allowing exports of grain and other agricultural products from the Black Sea area. Kremlin spokesman Dmitry Peskov said Moscow would announce whether it was extending its participation in the Black Sea grain deal “at the appropriate time,” state-run TASS news agency reported.

Expiration of the current accord is Nov. 19.

**FED
RESERVE**

Fed close to shifting gears on rate hikes. Market expectations have shifted swiftly to the Fed deploying a 50-basis-point rise in the target range for the Fed funds rate when its Dec. 13-14 meeting ends. That is fueled in part by inflation at the consumer and wholesale level coming in below expectations in October.

Fed Vice Chair Lael Brainard signaled the central bank could “soon” be at the point of easing the rate of hikes from the 75-basis-point boosts they have deployed. That is not a shock as Fed Chairman Jerome Powell hinted at that when the November meeting wrapped up. His urging to markets: Focus on where rates end up, not how we get there.

So what about easing inflation data? Fed officials have insisted they want to see sustained evidence... so far they haven't. “One month of data does not a victory make,” San Francisco Fed President Mary Daly said. That means higher rates are still ahead, raising costs for businesses and households alike even if the pace is slower than it has been.

MARKETS

Corn: USDA added bushels to the U.S. crop in its November update, boosting carryover expectations. Demand is a concern. U.S. export commitments... export sales plus accumulated exports... are around 580 mil. bu. in the 2022-23 marketing year... well below year ago and the five-year average. This pace would suggest the smallest exports since 2019-20 when they were under 1.8 bil. bushels.

Soybeans: South American weather is now the focus. Declining freight rates on the Mississippi River may help bolster U.S. soybean export sales ahead of the availability of supplies out of Brazil and Argentina. Other markets continue to influence soybean futures... soyoil in particular... as food and biofuel demand are key drivers.

Wheat: Ratings for the 2023 U.S. winter wheat crop have started the season at historically low levels and while they upticked slightly, they are still at the lowest in at least 30 years. Spring weather will have a major say in the eventual outcome for the crop.

Rice: USDA lowered the U.S. crop in its November update, lowering yield and all-rice production to what would be the lowest output since 1993-94. That provided support for prices while other grain futures saw declines. But harvest pressure and macroeconomic concerns will likely limit the ability of rice futures to continue moving much higher.

Cotton: USDA upped the U.S. cotton crop on stronger results expected out of the Southeast. Storms closing in on the region will be important for unharvested fields. China stepped back into the U.S. cotton market, but overall U.S. exports remain limited by tight supplies and getting newly harvested cotton to ports.

Cattle/beef: U.S. cattle weights are continuing to move higher on a seasonal basis and the number of cattle moving to slaughter has remained above year-ago levels. That is putting additional beef into the supply pipeline. Cattle supplies will tighten ahead but higher weights will not allow a sudden tightening in the beef market.

Hogs/pork: Hog numbers coming to market are in line with what was forecast by USDA in its September Hogs & Pigs report. Kill levels are at their highest point since the fourth quarter of 2021 and a slight seasonal rise in numbers is looked for into December. That will mean cutout values will likely have more influence over lean hog futures in coming weeks.

Poultry: As we have noted, the highly pathogenic avian influenza (HPAI) situation has had the greatest impact on the U.S. turkey industry, boosting price of birds in stores just ahead of the biggest holiday of the year for turkey demand... Thanksgiving. Supplies will rise, but that will not reduce bird prices now. Then the attention on margins will be linked back to feed costs.

Dairy: U.S. milk production is rising at a normal rate, but there are likely to be limits to how much milk output will increase. The number of cattle in the dairy herd is one factor and even though per-cow output is rising, that will not make up for slightly decreased cow numbers. On the product side, cheese demand has remained solid with exports also proving to be decent.

BIOFUELS Trade group seeks 7-bil.-gal. advanced biofuel mandate. EPA should increase the advanced biofuels share of the fuel market by 1 billion gallons a year to reflect the land rush into renewable diesel production, said the trade group Clean Fuels America Alliance on Monday. The recommendation would raise the federal mandate for second-generation biofuels to 7.63 billion gallons in 2024, a 36% increase from this year.

EPA proposals for 2023... and 2024 and 2025... are coming. The announcements would put them back on track for setting RFS levels 14 months before the year begins.

Dates: Proposed 2023 requirements no later than Nov. 30... court order timeline; final mandates by June 14, 2023.

E-RINs will be generated for recharging EVs with certain fuels.

EPA will also comment on the future of the Renewable Fuel Standard program.

RAIL STRIKE Another union votes to reject rail agreement. Members of the International Brotherhood of Boilermakers (IBB) have rejected the tentative agreement reached between unions and freight railroads. IBB represents 300 of the more than 100,000 workers involved in the agreement. IBB is the smallest union involved in the situation, but all unions have said they will not cross picket lines if one union goes on strike.

A cooling off period will last until Dec. 9 and the union said they intend to continue negotiating.

Two other unions have rejected the pact while a third rejected it but then approved a renegotiated deal. The two largest unions are poised to announce their voting results November 21. Seven unions have approved the deal.

The Biden administration is not as directly involved in the subsequent negotiations as it was when the initial deal was struck, with Labor Secretary Marty Walsh indicating before the election that Congress would have to step in if a strike was on tap.

INPUTS Fertilizer scarce into 2023. Fertilizer shortages will persist into 2023 in many countries, threatening agricultural production and food security in Africa in particular, said a WTO/FAO study urging G20 nations to allow open trade in the product.

ERP ERP payouts continue to edge higher. Payments under the USDA Emergency Relief Program (ERP) moved up to \$7.15 bil. as of Nov. 13, up from \$7.13 bil. the prior week. The total includes \$6.12 bil. in non-specialty crop payments (\$6.11 bil. prior) and \$1.03 bil. in specialty crop payments (\$1.02 bil. prior).

USDA this week announced Phase 2 of ERP. But more details come later with publishing of the rule.

What about an ERP extension for eligible 2020 crops and livestock? Our congressional contacts signal the odds for this are still good... but details are lacking.

POPULATION The global population today, according to U.N. projections, is 8 billion. Twelve years have passed since the world passed the 7 bil. milestone, and 6 bil. was passed 12 years before that. The rate of growth has fallen. This year the population is forecast to have risen by just 0.8%... slowest rate since the 1950s and a third of the peak in 1963. Women are choosing to have fewer children and between now and 2050, the U.N. thinks, 61 countries will see their populations fall by at least 1%. It will take 15 years to add the next billion people, and 21 years to reach the billion after that, the U.N. says.

India's population will surpass that of China on April 14, 2023, the U.N. says. India's population on the following day is projected to be 1,425,775,850.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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