

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Jan. 20, 2023

More farm aid and policy announcements were made last week by USDA Sec. Tom Vilsack. Some of them:

FARM  
POLICY

• Ag disaster aid: ERP Phase 2. Vilsack announced Phase 2 of the Emergency Relief Program (ERP), which will provide help to producers for production and quality losses of eligible crops, utilizing calculations of a producer's decrease in gross revenue. USDA said using that approach will reflect the losses "without requiring the more extensive calculations and documentation required under previous programs" for disaster-related crop losses. USDA said this means it will address losses for a qualifying disaster event whether it happened before or after harvest.

Eligibility: ERP Phase 2 will be available for a decrease in gross revenue in 2020 or 2021, primarily to those with losses not covered by Federal Crop Insurance or the Noninsured Assistance Program (NAP).

Application period is Jan. 23-June 2.

USDA projects \$1.2 bil. for ERP Phase 2 payments, which will likely be pro-rated as USDA projects total gross outlays at \$1.5 billion.

Phase 2 has problems, based on farmer reaction. For Phase 2, comparing schedule F in relevant years to past years doesn't reflect losses. A farmer may have had to sell land or livestock when they didn't want to. They may have sold a previous year's crop in the year in question. Also controversial: Forcing farmers to share schedule F info with local FSA offices.

• Pandemic assistance: PARP... Pandemic Assistance Revenue Program (PARP)... payments for producers that suffered a 15% or greater decrease in allowable gross revenue for the 2020 calendar year compared with either 2018 or 2019. This effort, Vilsack said, aims to "fill in gaps" for losses covered by either Phase 1 or Phase 2 of ERP. The payments will have a factor of 80% (90% for underserved farmers and ranchers) and will be reduced by 2020 ERP payments, and pandemic assistance under either the Coronavirus Food Assistance Program (CFAP) 1 or 2 and other pandemic aid. Payments will be limited to \$125,000 per person or entity and USDA may set a lower maximum payment amount per person if total payments exceed available funding and USDA expects that... PARP outlays are projected at \$250 mil. with gross outlays pegged at \$2.66 billion.

• U.S. fertilizer production. USDA will seek public comment on 21 potentially viable projects totaling up to \$88 mil. to boost U.S. fertilizer production via the first round of USDA's Federal Production Expansion Program, a \$500 million effort announced earlier this year. USDA is seeking comments through Feb. 8 on the environmental impacts of the projects.

• Meat and poultry processing. Vilsack announced three more projects in Ohio, Michigan and Minnesota which will expand independent meat and poultry processing capacity via the Meat and Poultry Processing Expansion Program. The projects total \$12 million.

## VILSACK COMMENTS

• **He praised farmers** for responding to the need to shore up the global food supply in the wake of disruptions created by Russia's Feb. 24 invasion of Ukraine... despite challenges it created including driving up already lofty prices for key inputs like fertilizer. "Through it all, you still continue to produce, and you produce in a market that oftentimes finds you with limited market opportunities. It's an incredible story of resilience.

• **Farm income:** Despite record farm income the past two years, data from USDA's Economic Research Service (ERS) show that most U.S. farm households continue to rely on things besides farming as their primary source of income. "We've looked for ways in which we can encourage and increase the number of revenue streams available to farmers, so that they not only can benefit from the sale of crops or the sale of livestock, but that they have other additional revenue streams available to them," he said. Vilsack noted USDA's \$3.1 bil. Partnerships for Climate Smart Commodities (PCSC) climate-smart ag and forestry pilot project grant funding effort as one example... "a new revenue stream that will lead to more productive soil, cleaner water and more efficient use of those important resources."

Source: Ag Letter editors

HPAI

USDA Secretary Tom Vilsack may have to focus on egg prices, as National Economic Council (NEC) Director Brian Deese says the administration needs to work on the topic. Consumer Price Index (CPI) data for December indicated the overall rate of price increases faced by Americans continued to ease, but things like egg price still rose 11.1% from November and are up 59.9% above year-ago levels.

The outbreak of highly pathogenic avian influenza (HPAI) has been a key factor, reducing the U.S. egg laying flock as infections have hit that portion of the industry hard.

Deese told *CNBC* there has been “real progress” on inflation but said that there is more work to be done, including on “short-term issues like egg prices.” Some 13.4% of the average monthly layer flock in 2022 was destroyed due to HPAI infections.

“Lower-than-usual shell egg inventories near the end of the year, combined with increased demand stemming from the holiday baking season, resulted in several successive weeks of record-high egg prices,” USDA says. Wholesale egg prices were expected to decline as the industry rebuilds its hen inventory, adds the Economic Research Service.

CHINA

China’s December soybean imports jump. China imported 10.56 MMT of soybeans in December, up 19.1% from last year and the highest monthly tally since June 2021, as importers tried to ease tight supplies. For 2022, China imported 91.08 MMT of soybeans, a 5.6% decline from the previous year.

China’s meat imports continue to climb. China imported 700,000 MT of meat in December, up 30,000 MT (4.5%) from November and 7.7% greater than last year. China’s preliminary data doesn’t break down meat imports by category, but the steady increase since late summer has been due to higher pork imports. For 2022, China imported 7.4 MMT of meat, down 21.0% from the previous year.

China approves more GMO crops. China has given safety approvals to both imported and domestically developed genetically modified (GMO) crop varieties, the agriculture ministry said. The approved imported crops include two Bayer glyphosate-resistant alfalfa varieties, a Brazil-developed GMO sugar cane and BASF herbicide-resistant cotton. Beijing also approved some domestic GMO varieties, including corn and soybeans.

GLOBAL  
TRADE

Biden administration’s manufacturing push could transform global trade. In just over a year, the U.S. has passed three huge budget measures aimed at transforming its domestic economy... by rebuilding infrastructure, accelerating a clean-energy transition, and boosting manufacturing in semiconductors and the automotive industry. The *Wall Street Journal* reports there could be one big unintended consequence: “If U.S. policy makers use these initiatives to promote domestic industries at the expense of foreign competitors, other governments are likely to respond with their own protectionist policies, leading to a costly breakup of global trade.”

USMCA

A trade panel backed Mexico and Canada in a dispute with the U.S. over rules to calculate regional content required for tariff-free automotive imports. Mexico and Canada challenged the U.S. method for calculating the regional content required under the USMCA trade pact for cars to have tariff-free access to the U.S., and requested the panel after failing to reach agreement.

Canadian Trade Minister Mary Ng said the ruling reaffirms “our understanding of the negotiated outcome on the rules of origin for automotive products.” Canada joined Mexico’s complaint, warning the U.S. interpretation could inhibit the ability of domestic manufacturers from qualifying for duty-free trade in North America. Canada “is glad to see that the dispute settlement mechanisms in place are supporting our rights and obligations negotiated” in the trade treaty, Ng added.

Next step: The U.S. must use Mexico’s and Canada’s methods to calculate regional content, or face retaliatory tariffs. In a statement, the U.S. Trade Representative’s office called the ruling “disappointing,” warning it could result in “less North American content in automobiles, less investment across the region and fewer American jobs.” The USTR said it is considering its next move, adding it would discuss a possible resolution with Mexico and Canada. Mexico’s Economy Ministry said it would begin a dialogue with its trade partners on the ruling in the coming days.

**FED**

Market expectations of Fed rate hikes and pause ahead at odds with Fed thinking. The inflation data via the Consumer Price Index (CPI) released last week showed a slowdown in the rate of price increases. That has boosted probabilities for a 25-basis-point increase in interest rates at the Feb. 1 FOMC meeting conclusion at 91.3%, with the probability at 72.1% for another 25-basis-point increase at the March 21-22 meeting, which would take the target range to 4.75% to 5%.

Probabilities for another increase at the May 2-3 meeting dropped to 29%, with 54.1% odds the Fed will hit the pause button.

For the remainder of the year, the probabilities favor a steady rate path until the Oct. 31-Nov. 1 meeting when a 25-basis-point *reduction* has the edge, then another reduction at the Dec. 12-13 session, which would take the Fed funds back to the current mark of 4.25% to 4.5%.

But the Federal Reserve has other ideas. Current Fed projections are the Fed funds rate target range will be at least 5% to 5.25% by the end of 2023 with decreases not starting until sometime in 2024.

**MARKETS**

Corn: USDA's surprise to the market on the U.S. corn crop and Dec. 1 corn stocks and 2022-23 carryover... all lower... will keep attention on demand news ahead. The pace of ethanol production and the export pace will be important in coming weeks. Argentina's declining production potential is also moving into focus and 2023 U.S. production prospects will gain in attention ahead.

Soybeans: Tighter U.S. soybean supplies via USDA's January updates combined with drought conditions in Argentina, which have the potential to limit production, are keeping support under prices. The impacts in Argentina could also translate into more U.S. soybean exports. As with corn, 2023 acreage and production will become more of a focus in coming weeks.

Wheat: U.S. farmers managed to get more winter wheat planted last fall than expected, though planting took place in very dry soil conditions. Ratings for the newly planted crop remained low in key states. Russian wheat remains the most-competitive on the global market along with hefty Australian supplies, limiting U.S. export potential.

Rice: Futures gained in the opening week of the year and export sales of U.S. rice also improved to open 2023. But it will take additional weakness in the U.S. dollar index to keep demand moving at this stage. Drought conditions in South America could also come into play as they may temper competition from that region on the global market.

Cotton: Demand for U.S. supplies ticked up to start 2023 and that is a trend that needs to continue, particularly with U.S. yields at a record. But abandonment in areas like Texas managed to keep the crop well below year-ago marks. Cotton demand likely hinges on global economic prospects that are still signaling a slowdown ahead.

Cattle/beef: Live weights continue to move lower on a seasonal basis with additional declines the final week of 2022. They are expected to remain below year-ago levels as 2023 unfolds. A decline in boxed beef values kept live cattle futures choppy to start 2023. Boxed beef movement improved, but was still down significantly from year-ago.

Hogs/pork: Nearby hog futures continue to hold a modest premium as the cash index continues to fall.

Poultry: The impacts of highly pathogenic avian influenza (HPAI) continue to capture headlines... including attention from White House officials... with record egg prices... up 59.9% from year-ago levels in December at the consumer level. Carton egg prices have started to ease to open 2023 even though they are still record high. But it will take a while to rebuild the layer flock and further ease egg prices.

Dairy: The U.S. dairy herd likely shrunk during November based on dairy cow slaughter levels seen in recent weeks. For all of 2022, dairy cow slaughter was up 1.74% compared with 2021. But the milk production totals may not fall as much given that per-cow output has continued to rise, tempering the reduction in market supplies.

ESTATE &  
GIFT TAX

The lifetime estate and gift tax exemption for 2023 jumps to \$12,920,000.

The special estate tax valuation of real estate also increases in 2023.

Up to \$1,310,000 of farm or business real estate can receive discount valuation, letting estates value the realty at its current use instead of fair market value.

More estate tax liability qualifies for an installment payment tax break. If one or more closely held businesses make up greater than 35% of a 2023 estate, as much as \$700,000 of tax can be deferred, and IRS will charge only 2% interest.

The annual gift tax exclusion increases to \$17,000 per donee in 2023.

SHIPPING

At 1.161, the Cass Freight Index for December was down 3.9% from the year before in the steepest annual rate of decline since August 2020 and the lowest level for the measure of U.S. shipping demand since January 2022.

LUMBER  
PRICES

Lumber prices hit lowest level since June 2020. Chicago lumber futures bottomed around the \$350 per thousand board feet mark, a level not seen since June 2020, as soaring interest rates continued to depress real estate activity. The Federal Reserve's aggressive tightening cycle has pushed the 30-year mortgage rate above 6%, dragging down sales and reining in home price growth while putting a severe dent in homebuilder confidence. The latest report from the Census Bureau showed that new permits for home construction, a potential indicator of future activity, plunged more than 10% to 1.351 mil. units in November, the lowest since June 2020. The benchmark is now down almost 80% since its May 2021 peak of around \$1,700, when supply chain issues compounded the price effect of strong demand.

TRADE  
POLICY

Biden wants trade with environmental focus for trade relations with Mexico, Canada.

President Joe Biden recently met with his counterparts from Mexico and Canada. He said he wants to have strengthened trade relations with an environmental focus to create a trading bloc to take on China and Russia. Mexico's president asked Biden for more U.S. investment into Mexico and wants coordinated investment into Mexico so there can be growing trade among the U.S., Canada and Mexico. Mexico also wants more money for the U.S. immigration system, saying that for Biden's plan to work, there must be investment in Mexico for returning people to the country.

Upshot: John Kirby, NSC Coordinator for Strategic Communications, said "This is foreign aid and assistance and it's really, quite frankly, a down payment and an investment in regional security and we are trying to get at the root causes of this very historic migration that we're seeing."

Bottom line: Biden wants to raise the environmental standards for Mexico to boost trade so it can have a robust climate change policy and boost solar panels and wind manufacturing in Mexico and to increase trade among the three countries.

SOTU  
ADDRESS

President Biden to deliver State of the Union (SOTU) address Feb. 7. The prime-time speech, delivered annually by the president, will be Biden's first opportunity to address Congress since Republicans took control of the House earlier this year. Biden is expected to touch on a range of pressing issues, from the war in Ukraine to the looming U.S. debt-ceiling fight.

The ag sector will be listening closely to see if Biden includes the coming farm bill debate as one of the issues he and his fellow Democrats will seek to work on with Republicans.

SENATE

Senate Ag Chair Debbie Stabenow (D-Mich.) will not seek re-election in 2024. The timing of the announcement was a surprise to most. Some say the development raises the odds somewhat of a potential new farm bill yet this session of Congress, despite a growing number of farm bill watchers predicting at least a one-year extension of the 2018 Farm Bill.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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