FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 94, No. 4

Dear Client: Washington, Feb. 17, 2023

A lot more funding for conservation is coming…

USDA announced $850 mil. as an initial tapping of $19.5 bil. Congress approved last year for additional conservation spending over five years.

CONSERVATION

Funding is for several conservation programs…
Environmental Quality Incentives Program (EQIP),
Conservation Stewardship Program (CSP),
Agricultural Conservation Easement Program (ACEP)
Regional Conservation Partnership Program (RCPP).

Extra funds, provided via the Inflation Reduction Act (IRA), will help the oversubscribed programs, USDA said.

Details. IRA included additional funds totaling…
$8.45 bil. for EQIP,
$4.95 bil. for RCPP,
$3.25 bil. for CSP and
$1.4 bil. for ACEP.

This marks the first installment of the extra funds which will "build rapidly over four years," USDA said.

The goal: Funds are aimed at providing what USDA said are "direct climate mitigation benefits" and expanding financial and technical assistance to producers.

Directing the funding: USDA's NRCS... Natural Resources Conservation Service "to support department-wide work on Measurement, Monitoring, Reporting and Verification (MMRV)." The extra funding will "support other environmental co-benefits, including… among other things… water conservation, wildlife habitat improvements, and reducing runoff."

COMMENTS ON FUNDING

The additional $19.5 bil. in conservation funding should make it easier in writing the conservaton title in the new farm bill.

• **The National Sustainable Agriculture Coalition** said the boost in conservation programs to reduce greenhouse gas emissions also includes "many co-benefits that accompany effective conservation practices," the group stated.

"By highlighting the simultaneous benefits possible under the spending, USDA will ensure that climate benefits are also benefits for biodiversity as well as water, soil, and air quality," said Cathy Day, NSAC's climate-policy coordinator. "Climate solutions must build farm resilience, and that requires holistic, systems-based farm support. USDA's plan to work with local partners in rolling out the programs will strengthen that approach."

• **USDA Secretary Tom Vilsack:** "We know that agriculture plays a critical role in the nation's effort to address climate change; we're using this funding to bolster our existing programs, maximize climate benefits, and foster other environmental benefits across the landscape."

Source: Ag Letter editors

Applications for EQIP and CSP are accepted year-round, but USDA said that those interested in the additional funding for those two programs should apply by the ranking dates in their state to be considered for funding which is provided via a competitive process.

For ACEP Agricultural Land Easements or Wetland Reserve Easements, applications must be submitted by March 17 for the first funding round.

For RCPP, NRCS is expected to announce the signup opportunity in early spring.

Other actions at the state level will be announced for fiscal year 2023, which began Oct. 1.

USDA Secretary Tom Vilsack also announced a WaterSMART Initiative to spend $25 mil. in three new and 37 existing priority areas to help farmers and ranchers conserve water and build drought resilience in arid regions.

Perspective: Congress said the $19.5 bil. in conservation funding was to prioritize practices that reduce greenhouse gas emissions and increase climate resiliency. USDA spends around $5 bil. a year on conservation programs so the additional funding will allow a huge boost.

The Agriculture Letter is published biweekly for $139/one year, $264/two years, $396/three years (U.S.) by Farm Journal Media, Ag Letter Editor Jim Wiesemeyer, 402 1/2 Main St., Cedar Falls, Iowa, 50613-9985. ISSN 2181-4217 (print), ISSN 2381-4225.
POSTMASTER: Send address changes to The Agriculture Letter, 820 James St., Webster City, IA 50595.
Subscription inquiries: 888-752-2047
Editorial information: Tel., 800-772-0023; Fax, 319-277-7982;
E-mail: aglettereditors@farmjournal.com; or AgricultureLetter.com

GMO CORN DISPUTE

AMLO's gov't softened Mexico's stance on genetically modified U.S. corn, according to a decree, yielding to pressure from the Biden administration. It's scrapping a deadline to ban it for animals and manufactured products, but will still prohibit importation for flour and tortillas, and glyphosate, a pesticide. Most U.S. corn exports to Mexico are used for livestock feed.

Phasing out will depend on supply and establishing working groups with domestic and foreign businesses for an orderly transition.

Mexico comments. The new decree "does not represent any impact on trade or imports, among other reasons because Mexico is greatly self-sufficient in the production of white corn free from transgenics," Mexico's economy ministry said. Mexico will not grant new authorizations for GM corn for human consumption, the decree said. Health authority COFEPRIS, however, may grant authorizations for GM corn to be used as animal feed or industrial use for human food until a substitute is achieved. The decree, which took effect Feb. 14, said it is in accordance with Mexico's food self-sufficiency policies and protection of the health of the population and the environment.

The National Corn Growers Association has pushed for an arbitration panel under the U.S.-Mexico-Canada Agreement (USMCA) on trade to settle the dispute, saying Mexico's plans violate the deal. Last month, the group signaled there was no room for compromise, saying a ban would "deliver a blow to American farmers and exacerbate current food insecurity in Mexico."

Bottom line: Mexico maintains the new decree does not violate its commitments under USMCA as it does not affect trade and imports as Mexico is self-sufficient in white corn used for food. The decree on halting imports of GMO corn also does not apply to corn imported for industrial use. The decree maintains Mexico's plans to revoke authorizations and permits to import, produce and distribute glyphosate with a transition period in effect until March 31, 2024. The U.S. has asked Mexico to clarify its position on GMO corn and *Politico* reported that the Office of the U.S. Trade Representative (USTR) said was reviewing the decree and that it does not meet the U.S. request for an explanation of their plans by Feb. 14.

SPR SALE

More SPR oil sales? Oil prices, a key inflation component, fell on a report that the Biden administration plans to sell more crude oil from the Strategic Petroleum Reserve... SPR... but Biden officials said they don't want to, but Congress is making them do it.

What's going on: The congressionally mandated sale will amount to 26 million barrels of crude, according to people familiar with the matter. The sale is in accordance with a budget mandate enacted in 2015 for the current fiscal year. The Energy Department has sought to stop some of the sales required by the 2015 legislation so that it can refill the emergency reserve, which currently has about 371 million barrels.

After this latest release, the reserve will dip to about 345 mil. barrels. West Texas Intermediate crude futures dropped below $80 a barrel on the development.

INTEREST RATES

Higher interest rates ahead. Federal Reserve Governor Michelle Bowman said she expects the Fed will need to hold interest rates higher for "some time" to bring supply and demand back into a better balance and achieve the central bank's target 2% inflation rate. Speaking to attendees at an American Bankers Association conference, Bowman did not specify what she thought the peak rate should be, but said she believes a soft landing is still possible.

BUDGET CUTS

Clawing back unspent funds appropriated in Covid-19 emergency bills is a top priority for House GOP conservatives. Rep. Andy Harris (R-Md.), according to *Bloomberg*, said there may be "hundreds of billions of dollars of unspent Covid money. "The conservative members want to break this parity between defense and nondefense," Harris said. "It's an artificial parity."

Harris is the senior member of the Freedom Caucus appropriators and is the new chairman of the Agriculture/FDA Subcommittee, where he also aims to cut the Food and Drug Administration's budget, block Chinese purchases of U.S. agricultural land, and impose stricter work requirements for nutrition aid. A measure to ban Chinese purchases of U.S. agricultural land, previously proposed as an amendment to House appropriations bills by Rep. Dan Newhouse (R-Wash.), "will almost certainly be in the draft bill," Harris said. Harris also said he'll aim to reduce Supplemental Nutrition Assistance Program (food stamp) funding to its pre-Covid levels, which would be a roughly 50% cut.

INFLATION

Inflation pace ebbing down but remains high. Inflation as measured by the Consumer Price Index rose 6.4% from year-ago marks in January, just under the December rate, but higher than expected. Prices for January actually rose 0.5%, driven up by increases in housing costs.

Food prices remain elevated with all food prices still 10.1% higher than year ago and grocery store prices still 11.3% above Jan. '22. But that's still well below the 13.5% peak in August.

The housing side is still on the rise, a situation which Fed Chair Jerome Powell has warned about as new contracts/leases for housing written now are going to be up from year-ago marks. Annualized rates of inflation for shelter have risen monthly, a string of increases that started in Sep 2021.

This data also prompted a slight shift in market expectations on Fed rate hikes with probabilities over 50% for another 25-basis-point rise in June, nudging odds for a pause back under 40%.

Bottom line: Inflation remains elevated and shows the Fed still has more work to do and that means higher interest costs may be with us longer than previously expected.

MARKETS

Corn: South American weather continues as a focus for the corn market but demand is also an attention point. USDA upped its forecast 2022-23 corn carryover on a reduction of corn used to make ethanol. Foreign buyers have been finding value in U.S. corn. Attention will increase on 2023 acreage prospects when USDA issues its initial thoughts at the Outlook Forum near Washington Feb. 24.

Soybeans: Soybean export inspections have been solid but the sales pace has turned a little softer. There are concerns over South American supplies with dry conditions in Argentina and that is supporting soymeal prices given that Argentina is the world's largest soymeal exporter. U.S. acreage for 2023 is next up on the list for market focal points.

Wheat: U.S. winter wheat entered into winter with condition ratings the lowest in some 20 years. But spring weather remains the real determinant for yield potential in winter wheat fields at this point. Tensions in the Black Sea continue to jostle global prices with Russia continuing to grouse about Western sanctions even as the U.S. and others maintain there are no restrictions on Russian ag exports.

Rice: Futures have been moving higher of late, buoyed by the gains in prices for corn and wheat. Buys from Latin American countries and Japan have lifted demand for U.S. rice, providing support for prices. Attention will be on 2023 acreage prospects and a shift higher in production could put a governor on price increases. But demand for old-crop supplies is important right now.

Cotton: Lower U.S. acreage in 2023 is now expected for cotton even with lofty prices for the current crop. Cotton growers have signaled as much. Traders expect USDA will echo those expectations when it tees up its initial look at the 2023-24 marketing year at its Outlook Forum. Global demand is also key with China important, but others are also buying up U.S. supplies.

Cattle/beef: USDA confirmed that tight cattle supplies are ahead with the U.S. beef cow herd at its smallest level since 1962. Cattle harvest continues to run behind year-ago levels but some of those figures were atypically high. Coupled with weights that are down from last year, less beef is flowing into the market pipeline.

Hogs/pork: February's hog slaughter is expected to be down from January and year-ago and are expected to trend lower through the first half of this year. But there are some signs that hog numbers may not be as tight as feared. Weights are also seen easing through the rest of the first quarter and that may temper any risk that numbers were not as small as expected.

Broilers: The second U.S. commercial broiler flock confirmed with highly pathogenic avian influenza (HPAI) was found in Mississippi, marking 20 states since the first of the year with confirmed HPAI cases. So far the turkey sector… hard hit by HPAI… hasn't had a confirmation since Jan. 25. But the risk is HPAI will be a concern for longer than expected.

Dairy: Current milk prices are expected to eventually put enough pressure on dairy farmers to temper milk production. We hear auction barns are seeing more dairy cattle moving through the ring and low heifer supplies could also temper herd size. But that will take time. And if prices happen to bounce higher, the production downturn could take even longer.

FARM INCOME

USDA forecasts 2023 farm income downturn after record 2022. While still remaining strong, U.S. net farm income and net cash farm income are forecast by USDA to fall in 2023, with net farm income at $136.9 bil., down $25.9 bil. from 2022 when it was a record $162.7 billion. The 2022 figure marked an increase from the December USDA forecast at $160.5 billion.

Net cash farm income in 2023 is seen at $150.6 bil., down $39.4 bil. from $189.9 bil. in 2022. The net cash farm income level for 2022 marked a slight decline from USDA's December outlook when it was expected at $187.9 billion.

If realized, both income measures would remain above their 2020 level and 2002-2021 average (in inflation-adjusted dollars).

Factors in the forecast decline. The combination of declines in overall cash farm receipts and lower direct payments from the government in calendar 2023 and higher production expenses produced the expected fall in net farm and net cash farm income.

Farm expenses continue to rise even though the biggest component... feed expenses... is forecast to decline in 2023. Feed expenses are forecast at $72.7 bil. in 2023, down $3.9 bil. from 2022, but above their 2021 level. The second largest expense item of fertilizer-lime-soil conditioners are forecast at $42.2 bil., down slightly from the 2022 record of $42.5 billion. Not surprisingly, interest expenses are seen at $33.8 bil., up $6.2 bil. (22.4%) from 2022 after rising $8.2 bil. in 2022.

Downdraft in government payments. After reaching a record high of $45.6 billion in calendar year 2020, USDA expects direct government payments will fall again in 2023 after registering declines in 2021 and 2022.

Supplemental and ad hoc disaster assistance payments in 2023 are forecast at $5.9 bil., a decrease of $5.7 bil. (49.2%) from 2022.

Pandemic-related assistance via the Coronavirus Food Assistance Program (CFAP) is now seen at $983.5 mil. in calendar 2023 after being at $540.3 mil. in 2022 and $7.5 bil. in 2021. Other supplemental and ad hoc disaster assistance is forecast at $4.9 bil. in 2023, a decrease of $6.1 bil. from 2022. "This is largely because of lower expected payments from the Emergency Relief Program (ERP) and the Emergency Livestock Relief Program (ELRP)," USDA said.

Dairy Margin Coverage (DMC) payments are now seen at $285 mil. in 2023, up by $156.7 mil. (122.2%) in 2022 as some payments were triggered in August 2022 and milk prices are forecast to fall further in 2023.

Conservation program payments are expected at $4.0 bil. in 2023, up $462.1 mil., due to a marginal rise in Conservation Reserve Program payments, with an increase in Natural Resources Conservation Service (NRCS) payments and an expected increase from the Inflation Reduction Act.

Traditional farm program safety net programs... Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs.. are also forecast lower. Reason: Higher prices."

Don't get too concerned yet about the downturn in income forecasts. Reason: It's very early in the year. A lot can change in a year. Last February, USDA forecast 2022 net farm income at $113.7 bil. and net cash farm income at $136.1 bil. and those marks now are at $162.7 bil. for net farm income and $189.9 bil. for net cash farm income.

ERP, CFAP PAYOUTS

ERP, CFAP 2 payment updates. Payments under the Emergency Relief Program (ERP) and Coronavirus Food Assistance Program 2 (CFAP 2) moved up as of Feb. 12, with total ERP payments at $7.39 bil., up from $7.38 bil. the prior week. The total includes $6.28 bil. for non-specialty crops ($6.27 bil. prior) and $1.11 bil. for specialty crops (essentially unchanged).

Total CFAP 2 payments are at $19.42 bil., up from $19.37 bil. the prior week. The total includes $14.52 bil. in original CFAP 2 payments ($14.48 bil. prior) and $4.91 bil. in top-up payments ($4.89 bil. prior). There was essentially no change in CFAP 1 payments.

ERP payments are being made under Phase 1 of the program while USDA is still not reporting any payments under Phase 2 that has been criticized as being overly cumbersome.

.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

Feb. 17, 2023

Copyright 2023. Farm Journal Media. Quotation for political or commercial use is not permitted. Duplicating an entire issue for sharing with others, by any means, is prohibited. Copying of individual items for internal use is permitted for subscribers with permission from