

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, June 9, 2023

The debt-limit, budget reform bill passed and was signed into law by President Joe Biden. Some impacts:

DEBT LIMIT Major media were biased in their reporting as the bill moved in the House and Senate, reporters focused on the naysayers... the most liberal Democrats and the most conservative Republicans.

Overwhelming votes occurred in the House... 314-117... and Senate... 63-36.

The measure:

- Suspends the debt limit to Jan. 1, 2025... actually mid-2025 when using extraordinary measure if hit.
- Holds overall spending flat for fiscal year (FY) 2024.
- Caps increases at 1% for 2025, while boosting spending for defense & veterans' medical care.
- Limits discretionary spending next two fiscal years.
- Reduces deficit by \$1.5 trillion through FY 2033.

It will not limit emergency aid packages for Ukraine.

Will not impact response to national security threats

such as China.

Disaster aid: Doesn't limit ability to appropriate emergency funds. We expect an aid package late this year.

Signal to appropriators: Get your work done...

What Congress will want to avoid: If a continuing resolution (CR) is in effect on or after Jan. 1, 2024, discretionary spending limits for FY 2024 would be reduced to be 1% less than FY 2023 base funding amounts. Similar requirements if CR is in effect on or after Jan. 1, 2025.

Rescission of funds:

- Clawback of around \$27 bil. in unspent Covid-relief funds.
- Moves \$1.4 bil. in funding previously provided to the IRS.
- Redirects \$20 bil. in IRS funding over next 2 years to nondefense spending, offsetting some of the spending cuts.

SNAP/food stamp program changes:

- Expands work requirements for "able-bodied adults without dependents" to adults aged 50 to 52 in fiscal 2024 and then up to age 54 beginning in fiscal 2025 ... from 18 to 49 now.
- Exempts homeless individuals, veterans, or individuals in foster care from the work rules.... these exemptions would more than make up for other changes that cut enrollment.

Food stamp changes could have settled the biggest partisan fight of the new farm bill. Senate Ag Chair Debbie Stabenow (D-Mich.) says SNAP issue is "settled: and there will be no more nutrition fights on work requirements in the farm bill."

But House GOP leaders disagree, signaling further food stamp efforts in coming farm bill.

PERMITTING CHANGES

- The debt limit/budget reform measure modifies the National Environmental Policy Act (NEPA) to streamline environmental review processes for energy and infrastructure projects.

- Sets timelines for completing environmental reviews and establishes responsibilities for lead agencies.

- The lead agency would have to complete an environmental impact statement within two years or an environmental assessment within one year, unless a deadline extension is agreed to by the project sponsor. A project sponsor could petition a court to order the agency to act if it doesn't meet its deadline. If the court determines the agency failed to act within the applicable deadline, the agency would generally be required to act not later than 90 days from the date the order was issued.

- If a proposed action involves more than one federal agency, the agencies would have to evaluate the proposal in a single environmental document. If two or more federal agencies, they would be required to determine, by letter or memorandum, which agency would act as lead agency.

Source: Ag Letter editors

FARM BILL

Reasons are being cited for why the farm bill is behind schedule to get it done this year. The Senate and House Agriculture committees are facing delays in drafting the next farm bill, and it is expected to be the most expensive farm bill to date, clocking in at around \$1.5 trillion. The process is “behind schedule” judging by past experiences with previous farm bills.

Neither of the Ag panels have established a timeline for crafting the legislation, although whispers have a draft coming before the August recess, or no later than September.

Budget issues, the recent debt ceiling negotiations and updated CBO projections have contributed to the uncertainty and stalling.

The 2014 and 2018 Farm Bills experienced delays, both due to conflicts over the SNAP program, which represents \$4 out of every \$5 in the legislation. That could happen again.

AG TECH

The rise of robot farmers across America’s fields marks a significant transition in agriculture technology and practices. A *USA Today* article says these machines, “resembling a mix of Transformers and Edward Scissorhands,” navigate fields of crops like broccoli, using high-resolution cameras to differentiate seedlings from weeds. Companies like FarmWise develop these robots, which employ machine learning to identify plants and eliminate weeds with impressive accuracy.

Not only do these robots outperform human crews, but they don’t suffer from heat, fatigue or discomfort. By mechanizing certain aspects of the farming process, workers have gone from labor-intensive weeding tasks to managing a fleet of these robot weeders. Automated machines are widely used for tasks such as driving tractors, carrying loads, thinning, and weeding, but delicate tasks such as harvesting fruits and vegetables are still some way off in the future.

Adoption of farm robots has potential benefits for human workers and the environment, streamlining processes and potentially reducing the need for herbicides. As innovative farming technologies continue to be developed and adopted, the article notes. The way we produce and consume food will be transformed, with potential positive impacts on the environment and human labor.

OPEC+

Saudi Arabia announced it will cut 1 mil. barrels of oil per day in July as part of a deal between OPEC and its Russia-led allies. Decision came after growing concerns over a slowing global economy and energy demand.

The cut is in addition to previously announced curbs, which will be extended until the end of 2024. The United Arab Emirates and other large producers also extended their previously announced cuts. Saudi Arabia’s decision to voluntarily cut output helped the group come to an agreement and keep their existing production targets until the end of the year.

The only real change for next year will come from the United Arab Emirates, which will be able to raise production by 200,000 barrels a day.

Despite boosting oil prices in the short term, analysts expect prices to trend lower. U.S. gasoline prices are down more than 25% from a year ago, and Brent crude is down about 20% since OPEC+ first slashed output in October. While Saudi Arabia has been actively propelling efforts to bolster energy prices, Russia has been pumping huge volumes of cheaper crude into the market, undermining these efforts. Some say the Saudi oil minister’s efforts to prop up prices could reflect an underestimation of concerns over a slowing global economy.

PROP 12

California Prop 12 implementation. The California Department of Food and Agriculture (CDFA) Animal Care Program announced a series of California Proposition 12 regulations and requirements webinars and released a guidance document with questions and answers related to pork sales in the wake of the Supreme Court decision.

NPPC officials met with CDFA on May 23 to work on securing a smooth transition for pork producers with minimal marketplace disruptions. Due to the need for regulatory clarity, NPPC asked CDFA to host these webinars to provide significantly more guidance for the entire supply chain:

- Tuesday, June 6 at 1:00 pm CT: Webinar for “end-users”... retailers, restaurants and food processors.
- Tuesday, June 13 at 1:00 pm CT: Webinar for “distributors”... selling or distributing covered product to an end-user in California.
- Tuesday, June 27 at 1:00 pm CT: Webinar for “pork producers”... keeping or housing breeding pigs.

INFLATION

"Inflation is set to slow markedly," says Vince Malanga, president of LaSalle Economics.

His reasoning: "Calendar effects will be noteworthy in the May and June price measures.

The broad swath of commodity prices is under downward pressure from weakening demand in this country and in Asia. OPEC+ is under pressure to curtail output but Russia's noncompliance to date raises the risk of an outright price war."

Malanga had been expecting inflation to slow to a 3% to 4% rate this summer, but says the slowing could be even greater.

With this backdrop, continuing rate increases by the Federal Reserve are in question, he notes. "The policy rate is already in restrictive territory. The big question continues to be how the Fed views its 2% inflation target. If it remains bent on pushing the rate to target, there is sufficient reason to keep tightening, raising the risk of a real recession. Were the Fed to pause in the near term, markets could jump to the conclusion that rate cuts would follow."

Legislators were wise to avoid a specific dollar amount on the debt ceiling, Malanga believes, because the deficit and debt would skyrocket in the event of a real recession. "This is not the environment in which an incumbent seeking re-election would relish."

MARKETS

Corn: Condition ratings have slipped from the initial reading as dryness continues to spread to the east in the Corn Belt. It is still early but the situation will keep markets somewhat on edge, particularly if the weekly updates continue to show dry conditions are negatively impacting the crop. Demand for U.S. corn, however, has flagged in recent weeks so supply concerns might perk are needed to spark buyer interest.

Soybeans: Planting has gone at a break-neck pace this season and the initial condition ratings for soybeans were decent but not spectacular. The moisture situation in the western Corn Belt has not been overly abundant. But the critical period for the crop lies ahead, with precip in August into September especially key. As with corn, a pick up in demand is needed for soybeans.

Wheat: U.S. winter wheat production clearly has taken a hit this year...the HRW crop in particular. Attention is shifting to spring wheat now that weather challenges are lifted in the Northern Plains. But the world market has plenty of supplies that can be tapped from the Black Sea region in particular and crop concerns have pushed U.S. wheat off of many countries' buy list.

Rice: Condition ratings remain near year-ago marks with the crop nearly all emerged. Other commodity markets are exerting influence on rice prices. El Niño weather patterns remain a risk, primarily to production potential in Thailand and Vietnam alongside monsoon concerns for India's upcoming kharif rice crop. But U.S. supplies are still struggling on the global market.

Cotton: Futures have remained somewhat range bound as markets continue to be unsettled by economic data that raises questions about cotton demand down the road. U.S. production is still seen rising versus year-ago levels even with a cut in planted acres. Abandonment may not be as high as USDA initially projected after heavy rains across West Texas over the past month.

Cattle/Beef: Packers pushed fed cattle prices to new all-time highs coming out of Memorial Day and supplies will continue to tighten. Second quarter cattle slaughter is now expected to be under the first quarter for the first time since 1980 when the pandemic-affected year of 2020 is taken out of the equation. The strong cash market is keeping a fire lit under futures. Demand is the wild card but most see fresh all-time highs in futures during the second half of this year.

Hogs/Pork: Hog numbers will tighten through June and that should support hog prices the next several weeks. Futures rallied coming out of Memorial Day as packers sought supplies. But retail demand ahead of the next grilling holidays...Father's Day...July 4... will be a key factor in price direction for hogs and pork.

Turkeys/Broilers: The rebuild of the turkey flock continues and it is now showing in market supplies. Year-over-year headcounts are coming in strong compared to bird-flu-reduced numbers last year. For broilers, there may be productivity issues afoot as egg sets are on the decline. This is a surprise especially with the broiler layer flock being record large on May 1.

Dairy: Milk prices have continued to erode, with prices in Iowa hitting a 19-month low in April. Slower fluid milk sales have built heavy supplies in the Midwest and Southwest, adding price pressure. But cheese production schedules are steady to higher and concerns about warehouse space are growing.

MEXICO
CORN

The U.S. is escalating its efforts to persuade Mexico to ease restrictions on genetically modified (GM) corn imports, requesting dispute-settlement consultations under the United States-Mexico-Canada Agreement (USMCA). This represents the U.S.' most forceful move yet in a year-long dispute over Mexico's attempt to significantly ban GM corn.

USTR Katherine Tai says Mexico's biotechnology policies aren't scientifically based and are causing disruptions in U.S. exports to Mexico, as well as being detrimental to agricultural producers. U.S. officials have been working to convince Mexican President Andrés Manuel López Obrador's administration to abandon plans for banning GM corn imports.

Mexico's Economy Ministry responded that it will defend its position while seeking a mutually acceptable agreement. Mexican officials have disputed the U.S.'s claim that shifting to non-GM corn for industry and livestock would restrict trade. They argue that they are preserving heirloom varieties of corn and have health concerns regarding a weedkiller frequently used with GM corn.

Over 90% of corn grown in the U.S. is genetically modified, per the National Corn Growers Association. As per the USMCA agreement, consultations between the U.S. and Mexico must begin within 30 days. U.S. farming representatives have been pressuring the administration to take this action, citing a threat to U.S. corn farmers and a disruption of bilateral trade relationships.

Background. In 2020, López Obrador signed a decree to phase out GM corn use in Mexico by January 2024. Mexican officials maintain that their objective is to protect native corn varieties and that their policies align with the USMCA trade agreement. In February, Mexico banned GM corn for human consumption in dough and tortillas and declared a gradual ban on GM corn for animal feed.

Mexican officials say the country produces more white corn for tortillas than it consumes, while imported U.S. corn is used for livestock feed and industrial purposes. U.S. officials contend that GM crops are safe for consumption.

Mexico is the largest agricultural trading partner of the U.S., with 14.5% of U.S. farm exports going to Mexico in 2022.

SENATE
2024

Sens. Jon Tester (D-Mont.) and Sherrod Brown (D-Ohio) are in tough re-election races in 2024. They both have a history of winning tough elections, which means they have a good chance to hold onto these crucial Senate seats in increasingly Republican states.

But the political climate has been shifting since their last elections and these once traditionally Democratic states are showing more support for Republican candidates. And in the case of Tester, some voters say they suddenly get more conservative around election time.

Born and raised in their states, Tester and Brown have forged strong connections with their constituents by focusing on specific groups or regions. Tester has built a reputation as a rural politician, proudly representing his home state and focusing on rural America's challenges. Brown has won the trust of the blue-collar workers by concentrating on workers' rights and other labor issues.

STATE
CAPITALS

The United States' state capitals have become increasingly polarized, with lawmakers pushing staunchly conservative or liberal agendas, according to a *New York Times* report. The 2022 election resulted in single-party control of the governor's office and legislature in 39 states, the most in over three decades. This has led to a widening divide on significant social issues between Republican and Democratic states.

In Republican-led states, legislation often centered around restrictions on abortion, gender transitions for youths, and sexuality discussion in classrooms.

Meanwhile, Democratic states focused on introducing gun control measures, setting carbon emission limits, and creating safe havens for abortion and transgender medical care.

This trend towards polarization is apparent not only in long-standing single-party strongholds, such as Washington (Democratic) and North Dakota (Republican), but also in states traditionally considered political battlegrounds.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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