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Dear Client: Washington, July 21, 2023

With a new farm bill on the horizon...
A look at the origins of modern U.S. farm policy.

FARM POLICY

At our nation's founding, key issues: low prices, credit, debt forgiveness & free land. The bulk of farmable land was claimed by 1890.

Tariffs in 1789 were not intended to help ag but a way for the gov't to pay its bills, as there was no income tax. These benefited sugar producers after the Louisiana Purchase.

Education and research was a focus from 1830-1940...
USDA and Land Grant universities established in 1862.
Funding of ag research & experiment stations: 1870s.

Information and marketing: 1870-1933...
1870s-1890s: Chronic surpluses and depressed prices.
Droughts, disasters, especially in Great Plains & West.
Financial panics made credit scarce and expensive.

Cooperative Extension Service created to help farmers compete... 1914.

Federal Farm Loan Act in 1916 presaged Farm Credit.

Capper Volstead Act to exempt co-ops from anti-trust laws came in 1922.

Bureau of Ag Economics... 1924.

City population rises, aided by immigration: 1910-14.
Increased demand for food.
World War I: Food prices reached high levels.

U.S. farm population peaks in 1910 at 32 mil., and number of farms in 1920 at 6.5 million.

1909-1914 known as the Golden Age of Ag... period upon which parity prices are built.

KEY FARM BILLS

2018: Ag Improvement Act of 2018
2014: Agricultural Act of 2014
2008: Food, Conservation & Energy Act
2002: Farm Security & Rural Investment Act
1996: Federal Ag Improvement & Reform Act
1990: Food, Agriculture, Conservation & Trade Act
1985: Food Security Act
1981: Agriculture and Food Act
1977: Food and Agriculture Act
1973: Ag & Consumer Protection Act
1970: Agricultural Act of 1970
1965: Food & Agricultural Act of 1965
1956: Agricultural Act of 1956
1954: Agricultural Act of 1954
1949: Agricultural Act of 1949... permanent farm law
1948: Agricultural Act of 1948
1938: Agricultural Adjustment Act of 1938... permanent farm law, introduced Parity Prices based on 1909-1914 but later 1910-1914... aimed at providing farmers purchasing power they had then... merged farm bill with soil conservation legislation.
1933: Agricultural Adjustment Act of 1933

Source: Ag Letter editors, Combest-Sell

Farm income support from 1924...
After World War I ended, food demand plummets, prices crater.

Ag Marketing Act of 1929 enacted to help farmers buy, sell and store surpluses... make loans to co-ops, advances to co-ops and members... aim to help control surpluses. But this failed due to world depression and inability to control production.

Great Depression resulted in major legislation.. first in 1933... Ag Adjustment Act. Goal was to restore farmer purchasing power to the 1909-1914 days... later known as parity. This largely set the tone for farm bills between 1933 and 1996: price supports and supply management.

Commodity Credit Corp. created in 1933 by Executive Order... later codified by Congress.

World War II required farmers to go into overproduction but after war, oversupply and low prices. The 1948 Act split difference between those that wanted high, fixed support and those who wanted fluctuating supports, with first year high and fixed and subsequent years floating. Then 1949 Act passed... one of the permanent laws... and it sided with high, fixed supports. Of note: Even back then gov't was paying on a certain percentage of parity and only on certain acreage.

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RFS The Environmental Protection Agency (EPA) denied 26 small refinery exemptions (SREs) which were sought by 15 refiners to mitigate their responsibilities under the Renewable Fuel Standard (RFS).

These applications were related to quota alleviation for the compliance years of 2016-2018 and 2021-2023.

In a departure from previous rules, the EPA has commenced disclosing the names of refiners that have submitted SREs requests from July 1, 2022, onward.

WOTUS WOTUS update. The Environmental Protection Agency (EPA), under President Biden's administration, has requested court intervention in the Waters of the U.S. (WOTUS) issue as it prepares a new rule to replace its previous version. This follows a disruption caused by a U.S. Supreme Court decision earlier this summer.

EPA aims to present its new final rule for WOTUS before Sept. 1. The rule was submitted to the Office of Management and Budget (OMB) for review, but can take up to three months for it to review agency plans.

Once the new rule is presented, it will be closely scrutinized, and the possibility of additional legal disputes cannot be excluded.

QUESTION 3 In Massachusetts, the enforcement of a state law... Question 3... necessitating suitable living conditions for livestock has been delayed until Aug. 23 due to an ongoing lawsuit. The law instructs farmers to grant enough space for veal calves, breeding sows, and egg-laying hens to maneuver and extend their limbs. This announcement came as parties involved, including state officials, the restaurant and pork industries, require more time to assess outstanding issues following the Supreme Court's upholding of a similar California law, Proposition 12, in May.

The extension was approved by U.S. district judge Margaret Guzman to allow for further consultations and possible settlement negotiations. The Massachusetts suit, like the one taken to the Supreme Court, challenged the constitutionality of the animal welfare standards established by a 2016 referendum, known as Question 3.

Details: Question 3 not only establishes standards for Massachusetts farmers but also prohibits the sale of goods from other states unless they abide by Massachusetts' regulations. According to the National Pork Producers Council (NPPC), this creates additional obstacles in the pork supply chain by preventing the transportation of noncompliant pork through Massachusetts for delivery to other locations.

NPPC's take: "This extended implementation allows the coalition and Massachusetts to continue discussions on implementation to ensure a smooth transition — including the transshipment and exports of pork through Massachusetts — so pork can continue to reach other New England states as well as provide guidance to the industry and supply chain. It is important to note that this Status Report and Joint Motion to Extend Stay does not change Q3, the rules, or what it means to be compliant. It simply extends the existing enforcement stay for a few more weeks."

ECONOMY Economists reduced their predictions of a potential U.S. recession in the upcoming year, with the estimated probability dropping to 54% from the earlier assessment of 61%, as per a recent poll conducted by the *Wall Street Journal* involving business and academic experts. This downward adjustment, which is the most significant monthly percentage-point decrease since August 2020, corresponds to several positive economic signals. The easing inflation, robust labor market conditions, as well as the demonstrated economic resilience, have all contributed to this reassessment. Despite the lower figure, the recession risk remains relatively high when compared to historical data.

Upshot: In the latest *WSJ* survey, nearly 60% of economists said their main reason for optimism about the economic outlook is their expectation that inflation will continue to slow.

UKRAINE Yellen: Ukraine support best way to help world economy. Treasury Secretary Janet Yellen said intensifying support for Ukraine is the 'single best' method of assisting the global economy. She noted endeavors to alleviate debt distress faced by struggling economies, implement bank reforms, establish a global tax deal, and said lifting tariffs on China is "premature."

INTEREST RATES

Rate cut ahead? Former Federal Reserve Vice Chairman Richard Clarida said market wagers on U.S. interest-rate cuts in March 2024 are understandable given a scenario where there's a "softish landing" and the central bank is confident it has reined in inflation. "A cut in March, or at least a strong indication at the March meeting that cuts are imminent, you know, makes sense," said Clarida.

At the same time, Clarida remarked that the economic dynamics may change, with a more rapid slowdown in inflation bringing forward the prospect of rate cuts, while stubborn price pressures may delay them until much later in the year or even further away.

BMO Capital Markets highlights that the annual-pace slowdown is flattered by base effects... relatively high year-ago price comparisons... and that this phenomenon will fade. Cheapening energy costs also had a big hand, but those prices have been edging up lately, Douglas Porter, BMO's chief economist, wrote in a note. "As the disinflationary force of lower energy prices fades, that will leave us dealing with the underlying 4% trend in core" inflation which is "a pace not seen since the early 1990s."

MARKETS

Corn: USDA's surprise of bigger corn acres and its July production outlook in the WASDE amplified price volatility. Market focus on improving crop ratings may be masking impacts that dry conditions have had on this year's crop. Key now will be how much if any irreparable damage was done by expanding drought through June.

Soybeans: USDA's surprise of smaller soybean acres and its July production outlook in the WASDE increased price volatility. Key now will be if pollination can take place without much weather stress. But then timely rains will continue to be needed to maintain potential.

Wheat: Russia pulling out of the Black Sea Grain Initiative have clouded the outlook and brought rising tension in the region. U.S. crop prospects are still down from last year but have improved. Spring wheat ratings will be important ahead with harvest results gaining attention when combines roll.

Rice: A weakening U.S. dollar and tightening old-crop supplies are providing support for old-crop rough rice futures. There are still global production concerns from El Niño, especially in Thailand and Vietnam. If U.S. crop prospects are maintained, that could exert added pressure on new-crop futures and bring some demand back to U.S. shores.

Cotton: Futures have moved little in recent weeks with prices maintaining a relatively sideways trend. The weaker U.S. dollar index could help boost demand for U.S. supplies, but U.S. cotton faces increased competition in the global market, keeping a lid on prices at this stage. The August Crop Production Report will be a key marker for prices with the first survey-based estimate of this year's crop.

Cattle/Beef: Live cattle and feeder cattle futures have continued to trade above their 2014 highs with funds still active in both markets. Cattle numbers are clearly tight and that will keep support under prices. But retail prices have begun to move higher and hit a fresh record in June. That could become a concern point and shift consumers toward cheaper pork and broilers.

Hogs/Pork: Recent action in the cash market could be signaling a near-term peak in prices. Seasonal factors imply an annual high will occur in the weeks just ahead, but having grocers cutting bacon prices well below year-ago levels at the height of BLT season suggests the belated spring-summer rally will last longer than usual. Surging slaughter from mid-August onward will likely trigger the usual second-half decline.

Broilers: There are still productivity concerns in the U.S. broiler flock. Egg sets and hatchability continue to struggle and have put recent production down around 2% from year-ago levels. Monthly layer flock headcounts are seen rising in the second half of the year, but the productivity questions have the potential to limit the uptick in output.

Dairy: Producers have been sending cows to slaughter and that is helping to reduce supplies. Culling has risen this year and is up nearly 6% in the first half of 2023 compared with the same period of 2022. That has the potential to bring production back down but it may take a while for that to manifest in markets. Negative margins are a factor, but those can be muted and take time to result in lower production.

RUSSIA/ UKRAINE

Russia suspends key grain deal with Ukraine. The Russian gov't announced on July 17 that it has suspended an agreement with Ukraine that ensures the safe passage of food grains through the Black Sea. Dmitry Peskov, the Kremlin spokesperson, stated that the deal will be resumed once Russia's terms related to the Black Sea grain pact are met. Russia asserts that Western sanctions have severely constrained its ability to export grain and fertilizer, posing a significant threat to global food security. Although there are no explicit sanctions on Russian grain and fertilizer exports, Russia argues that aspects like transport, shipping, finance and insurance are heavily affected by sanctions.

This suspension had global ramifications, causing an initial surge of more than 3% in U.S. benchmark Chicago wheat futures. Analysts note this move threatens global food security and is likely to increase food prices worldwide.

Russian grain exports will continue. Russia's grain exporting union Rusgrain said its members planned to continue supplying customers with Russian grain at competitive prices, despite Moscow pulling out of the Black Sea grain export deal. "Russia is the largest supplier of wheat to the world market... All contractual obligations of Russian grain exporters will be fulfilled," it said.

A grain deal resumption ahead? Turkish President Tayyip Erdogan believes Russian President Vladimir Putin wants the continuation of the grain export deal, despite the suspension. Erdogan said he would discuss the deal, including the export of Russian grains and fertilizer, with Putin when they meet in person during an expected meeting next month.

CHINA

Update on China economy and ag sector...

• China's economic growth is slowing, with an increase of only 0.8% in the second quarter, according to data from China's National Bureau of Statistics. This is less than half of the 2.2% growth rate recorded in the first three months of the year. Factors contributing to this slowdown include weak retail sales, muted private-sector investment, and a decrease in exports. Additionally, youth unemployment reached a record high in June. These indicators suggest a weakening pace of recovery, which has the potential to slow the global economy in 2023.

• China's wheat output falls 0.9%. China's wheat production fell 0.9% from last year to 134.53 MMT, according to official data. Wheat acreage increased 0.4% but yields fell 1.3%, as heavy rains hit key growing regions ahead of harvest. The late-season rains also hurt crop quality.

• China's Q2 pork output surges. China's second-quarter pork output rose 4.6% from last year to 14.4 MMT, the highest in at least a decade for the period. Amid poor margins and concerns of weaker prices ahead, farmers culled hog herds, increasing pork production. China's pork output in the first half of the year rose 3.2% from the same period last year to 30.3 MMT. China slaughtered 375.48 mil. hogs in the first six months of the year, up 2.6% from a year ago. China's pig herd rose to 435.17 mil. head in the second quarter, up 4.23 million head from the end of the first quarter.

INDIA

Top rice shipper India is considering banning exports of most varieties as the disruptive El Niño weather pattern returns. Such a move could further push up prices that are already at a two-year high. Many importers would likely turn to Thailand and Vietnam, with the former already set to harvest only one crop this season instead of the usual two.

POLITICS

A New York appeals court has ruled that the state's congressional map must be redrawn, a decision that could benefit Democrats by offering them more sway in defining the boundaries of New York's heavily contested 26 House seats. The Appellate Division of the State Supreme Court in Albany determined that the temporary district boundaries were inadequate, and instructed the bipartisan Independent Redistricting Commission (IRC) to commence revisions.

If the ruling stands, it may jeopardize re-election for several incumbent House Republicans.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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