

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

• Vol. 94, No. 17

Dear Client:

Washington, Aug. 18, 2023

President Biden's trade policy is unfolding, and is getting labeled by both political parties as not yet effective.

The U.S. ag sector also is not pleased with sparse action on new agreements and stalemates over disagreements.

TRADE  
POLICY

U.S. ag exports and imports both fell significantly in June, resulting in the most substantial monthly trade deficit on record. Ag exports dropped more than 8% to \$12.80 bil., the lowest monthly shipment value since September 2021, while imports fell almost 6% to \$15.96 billion. This decrease resulted in a monthly deficit of \$3.16 billion.

Big U.S. ag trade deficit. For fiscal year (FY) 2023, U.S. ag exports so far total \$141.37 bil., an average of \$15.71 bil. per month, while imports total \$148.19 bil., with a monthly average of \$16.47 billion. The current deficit stands at \$6.8 billion.

USDA projects U.S. ag exports of \$181 bil. vs. imports of a record \$198 bil., resulting in a trade deficit of \$17 billion. To meet this forecast, ag exports need to average \$9.95 bil. per month in the July-September period, while imports must average \$12.45 billion. Because U.S. ag exports have not fallen below \$10 bil. since April 2016, when they were \$9.91 bil., it appears USDA's export forecast might be underestimated. Unless import strength persists over the next three months, USDA's import forecast could be overstated.

U.S. trade with the rest of the world fell in June as total imports slid to their lowest level in 19 months, the latest sign that high interest rates are cooling economic activity. Imports fell 1% in June from the prior month to a seasonally adjusted \$313 bil., the lowest since November 2021. Exports declined 0.1%, and the overall trade deficit narrowed 4.1%.

The U.S. and China are breaking up, trade wise. A deepening confrontation is eroding trade ties between the world's two largest economies, with goods from China accounting for the smallest percentage of U.S. imports in 20 years. Instead, buyers are turning to Mexico, Europe and other parts of Asia for wares ranging from smartphones to clothing, according to a *Wall Street Journal* analysis of trade data released by the Census Bureau.

President Biden calls China a "ticking time bomb" because of economic problems. At a political fund-raiser, Biden pointed to weak growth, high unemployment and an aging work force, warning that countries in trouble often do "bad things." A day earlier, the president issued an executive order to restrict investments in key tech sectors in China, which was quick to criticize.

Trade downturn fuels fears for a connected world. The recent decline in global trade, highlighted by decreases in Chinese exports and U.S. imports, primarily mirrors a period of sluggish worldwide economic expansion. Some see potential shifts: a departure from decades of increasing global economic interconnectedness to a possible new era where Western countries and China prioritize trade with their political allies over each other.

U.S. farmers fret about the impact of potentially losing a big share of the Chinese market.

## U.S./MEXICO TRADE FLAPS

**A GMO corn trade flap** with Mexico keeps lingering. The official statement following a meeting between Deputy U.S. Trade Representative (USTR) Jayme White and Mexican Under Secretary of Economy for Foreign Trade Alejandro Encinas did not mention any discussion about the ongoing dispute concerning Mexican regulations on the import of genetically modified (GMO) corn for food purposes.

**U.S. fruit & vegetables producers** also have a complaint. A bipartisan group of lawmakers from the southeastern U.S. penned a letter to USTR Katherine Tai asking her for details on when the agency will setup a private sector industry advisory panel for Southeastern fruit and vegetable producers to discuss impacts related to Mexican produce imports. Imports of Mexican tomatoes and other produce have long been a concern for U.S. producers who say fruit and vegetable production is being unfairly subsidized in Mexico and the produce is then dumped on the U.S. market, creating financial hardship for domestic producers. USTR previously agreed to establish a panel and to initiate a Section 301 investigation of fruit and vegetable imports from Mexico and their impact on U.S. growers. But no action... yet.

Source: Ag Letter editors

HOG  
SECTOR

Settlement clarifies new regs to Massachusetts Question 3. A federal judge approved a compromise joint motion between state regulators and industry groups, who had challenged the voter-approved law that allows enforcement of most pork-related regulations to begin Aug. 24. Products that pass through Massachusetts on their way to final sale destinations in other states, however, will not immediately be subject to the new requirements.

Key change: As part of the deal, Attorney General Andrea Campbell's office and the Massachusetts Department of Agricultural Resources (MDAR) will not enforce any new restrictions on "transshipped" pork meat for at least six months. In that span, MDAR will work on a regulatory carveout exempting products that traverse the Bay State but are neither produced nor sold in the state.

The drafted regulations require pigs to have enough space to lie down, stand up, turn around freely and fully extend their limbs. Massachusetts businesses cannot sell any whole pork meat derived from animals denied that space, regardless of where they were raised, slaughtered, and butchered. The prohibition does not extend to "combination food products" that use pork as an ingredient such as hot dogs.

Of note: Almost all of the pork sold in Massachusetts comes from other states. According to statistics cited in one lawsuit challenging the pig welfare law, Massachusetts residents consumed about 356 million pounds of retail pork in 2022, only about 1.9 million pounds of which was produced within its borders.

The terms of the settlement state the Q3 regulations won't apply to whole pork meat that's already in the supply chain as of Aug. 23, nor will they apply to whole pork meat that was raised and sold to an out-of-state consumer. Also, if pork destined for out-of-state restaurants passes through distribution centers in Massachusetts, it will not be subject to Q3, even if a sale occurs in the state. The outcome allows impacted stakeholders more time to avoid supply disruptions.

Upshot: With the recent settlement, issues not covered by the Supreme Court decision, particularly transshipment through Massachusetts, have been resolved. This is important because allowing a state to dictate what products are sold or consumed elsewhere could significantly impact the national supply chain.

A request has been made to a federal court judge to approve this settlement agreement.

FARM  
BILL

New farm bill update:

- Timing: House Ag Chair. Glenn "GT" Thompson (R-Pa.) previously said he plans to circulate a draft in early September, with a possible panel markup by mid-September. But he may push those plans back depending on when he can secure floor time. The Senate signals their farm bill draft won't be ready until October at the earliest, but Sen. Amy Klobuchar (D-Minn.) said the Senate will likely go before the House regarding a vote on a new farm bill.

- House GOP hardliners: Reports note meetings have taken place intraparty to make sure there will not be a push-and-pull scenario whenever House leaders decide to vote on the omnibus measure. But some hardline GOP conservatives are already questioning the farm bill price tag estimated at \$1.51 tril. over ten years. The GOP mavericks also want further policy changes for the food stamp program, something Thompson is trying to avoid.

- This farm bill, like most others, will be a blend of policy and politics. For example, if efforts to boost reference prices fail, lawmakers like Sen. John Boozman (R-Ark.) will be pressed to pull their support for the measure.

- Key word for this farm bill debate: creative. That is the word several lawmakers have used recently relative to funding constraints in improving some features of the farm bill, especially the Title I safety net programs. That appears to be the case with ongoing staff and lawmaker work regarding possible changes relative to updating acreage bases, which could lead to some savings to be moved elsewhere.

- Watch for farm bill changes to improve ag insurance programs, for both crops and livestock.

RFS

Wynnewood Refining Co. challenges EPA Renewable Fuel Standard (RFS). The Okla.-based crude oil refinery is contesting EPA's rejection of its request for a small refinery exemption under the 2022 compliance year. The company filed a petition for review with the U.S. Court of Appeals for the Fifth Circuit, citing the Clean Air Act. EPA denied the exemption due to the refineries' failure to prove complying would cause disproportionate economic hardship.

**WORLD ECONOMY**

The global economy is displaying signs of resilience this year, despite ongoing issues like inflation and a slow recovery in China. The International Monetary Fund (IMF) recently stated that there's a higher chance of avoiding a global recession, assuming no unexpected crises occur.

Latest World Economic Outlook suggests a more positive outlook. While there's optimism, the global growth rate is still modest compared to historical norms, and the IMF's economists have highlighted persistent risks, including gradually rebounding from the pandemic and geopolitical events like Russia's invasion of Ukraine.

IMF raised its projection for global growth this year to 3%, up from its previous estimate of 2.8% in April. The organization also anticipates a decrease in global inflation from 8.7% in 2022 to 6.8% in 2023 and further down to 5.2% in 2024. This decrease is attributed to the impact of higher interest rates spreading across the world.

Upshot: The global economy is demonstrating resilience in the face of challenges, and IMF's projections are more optimistic, although cautious. IMF stresses the importance of careful monetary policy and managing geopolitical risks to sustain economic recovery.

**MARKETS**

Corn: USDA's initial corn crop estimate came in at 15.111 bil. bu., 24 mil. bu. below the average pre-report estimate and 209 mil. bu. less than the July projection. USDA estimated the yield at 175.1 bu. per acre, 6.4 bu. below trendline. Harvested area was unchanged from the June estimate of 86.322 mil. acres.

Soybeans: USDA's initial soybean crop estimate was 4.205 bil. bu., 41 mil. bu. lower than anticipated and 95 mil. bu. less than July's projection. USDA pegged the yield at 50.9 bu. per acre, 1.1 bu. below trendline. Harvested area was unchanged from the June estimate at 82.696 mil. acres.

Wheat: USDA cut its all-wheat production estimate to 1.734 billion bu, down 5 mil. bu. from last month. HRW production increased 7 mil. bu., SRW increased 17 mil. bu., white winter declined 4 mil. bu., other spring wheat dropped 27 mil. bu. and durum increased 2 million bu. from last month. The all-wheat yield estimate of 45.8 bu. per acre declined 0.3 bu. from last month. USDA raised harvested area 150,000 acres.

Rice: USDA's initial crop estimate increased U.S. production from the previous forecast by 2.6 mil. cwt. to 203.6 mil., all on higher yields. The average all-rice yield is forecast at 7,699 pounds per acre, up 100 pounds.

Cotton: USDA's initial cotton crop estimate came in at 13.922 mil. bales, 1.858 mil. bales below the average pre-report estimate. USDA cut harvested acres 906,000 from last month and lowered the yield 52 lbs. to 779 lbs. per acre.

Cattle/Beef: U.S. beef production for 2023 was lowered by USDA on lower steer and heifer slaughter and lighter dressed weights although cow slaughter was increased. For 2024, beef production was raised, reflecting higher expected placements in late 2023 and early 2024. These cattle are expected to be slaughtered during 2024. Cow slaughter was also raised for the first part of 2024. Cattle price forecasts for 2023 and 2024 were raised on persistently firm packer demand.

Hogs/Pork: USDA lowered its pork production estimate on lighter dressed weights although slaughter was raised slightly.

Broilers/Poultry: Growth in broiler production slowed with lower prices expected to reduce producer margins, according to USDA. The slower pace of egg production growth in 2023 is expected to carry into early 2024.

Dairy: USDA's milk production forecasts for 2023 and 2024 were lowered from last month. The cow inventory was lowered for both years based on the July 1 dairy cow inventory and heifer retention data provided in the recent Cattle report, as well as the average cow inventory data in the latest Milk Production report. Output per cow was reduced for 2023 but unchanged for 2024. Forecasts for 2023 butter and cheese prices were raised from the previous month based on recent price strength. The all-milk price for 2023 was raised to \$19.95 per cwt. For 2024, butter and cheese price forecasts are raised with the strength in prices carrying over from this year. Whey prices were lowered, while the NDM forecast was unchanged. The Class III price was raised as stronger cheese prices more than offset lower whey prices. The Class IV price was raised based on higher butter prices. The all-milk price was raised to \$19.35 per cwt.

SAF

U.S. airlines are helping farmers seek subsidies for corn as jet fuel. The U.S. biofuels industry is facing a changing landscape due to evolving enviro concerns and the growth of electric vehicles. The industry confronts declining demand as electric cars gain traction.

To stay relevant and meet the aviation industry's goal of net-zero emissions by 2050, biofuel refiners and airlines are teaming up to promote the use of ethanol in sustainable aviation fuel... SAF. However, their efforts face opposition from environmental groups that argue refining corn into biofuels has limited climate benefits.

The push hinges on tax credits established in the Inflation Reduction Act...Climate Bill... signed by President Joe Biden. These tax credits, which encourage the use of more eco-friendly fuels, could make or break the prospects of corn ethanol as a sustainable aviation fuel. Airlines, biofuel refiners and oil companies are lobbying for more generous tax credits for ethanol-based fuels that reduce emissions.

The debate: metrics used to measure emissions reductions. Airlines and proponents of ethanol prefer the Greet model, while environmentalists advocate for the Corsia standard, which penalizes fuels more for changes in land use linked to crop planting. Critics argue that supporting ethanol could deter investment in more advanced, less carbon-intensive alternatives, and thus prolong reliance on older, less efficient fuels.

The Biden administration is divided over which emissions analysis model to endorse, with efforts to reconcile the two perspectives ongoing. If tax credits are extended to ethanol, despite its lower emissions reduction compared to alternatives, it could significantly expand the supply of sustainable aviation fuel, making it more accessible and affordable for airlines. This move could help airlines meet emissions targets while avoiding higher costs that come with investing in newer, more expensive sustainable fuels.

INDIA

India plans to distribute 2.5 mil. metric tons (MMT) of rice and 5 MMT of wheat to domestic bulk consumers to stabilize the rising prices of these grains, according to India's Food Secretary, Sanjeev Chopra. Despite the challenges of food price inflation and impacted production due to weather conditions, India supposedly has sufficient stocks of both rice and wheat. The Indian government has put some export restrictions in place to ensure adequate domestic supplies. Recent statistics also support this claim, indicating that the country currently possesses more than the required amount of these grains in stock.

RURAL  
CO-OPS

In a big move for rural electric cooperatives, \$10 bil. in federal grants for clean energy projects have become available. From July 31, cooperatives can submit letters of intent to the "Empowering Rural America" grant program, which is worth \$9.7 bil. and for specific renewable energy initiatives. Another \$1 bil. became available through a similar scheme, PACE, in late June. USDA will oversee the distribution of the funds. The grants, classified into three categories based on the size of the cooperatives, are competitive, so timelines are tight.

Deadline for submitting letters of intent is Sept. 15, and missing it means forfeiting the opportunity to enter the formal application process.

AUSTRALIA

Australia to resume barley exports to China. The Australian gov't announced that CBH Group and Emerald Grain Australia, two of its major grain exporters, have been given the green light to resume barley exports to China. This follows the recent move by China to lift tariffs on Australian barley shipments. The announcement, made jointly by the Australian ministries of trade and agriculture, did not specify when the first post-tariff exports would occur. This development comes after China eliminated anti-dumping and anti-subsidy duties on Australian barley on Aug. 5.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

Aug. 18, 2023