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Dear Client: Washington, Oct. 27, 2023

Congress has been paralyzed…

A backlog of must-pass bills is mainly the result of the lengthy House GOP leadership race. Key issues in both the House and Senate face an end-of-year timeline, if not sooner.

FARM BILL

Nov. 17 is the latest gov't shutdown deadline… when both chambers must agree on a funding plan for fiscal year (FY) 2024, which began Oct. 1.

Odds now favor a continuing resolution as embarrassed Republicans don't want even more fingers pointed at them for lack of governing.

Duration of any stopgap spending measure is murky. Some signal into December while others favor into early 2024.

A one-year extension of the 2018 Farm Bill is what most expect. Lawmakers will push that as part of the coming CR to fund the gov't beyond Nov. 17.

Actual duration of a farm bill extension is important. If only a few months… perhaps into early 2024… that means farm bill leaders still think they can ink a new omnibus measure.

But key Ag panel leaders can't agree on major farm bill provisions, including how to come up with funding to improve the Title I farmer safety net.

A farm bill battle royale has surfaced…

Offsetting farm bill priorities with $50 bil. in cuts has reportedly been proposed by some House Republicans… primarily from climate change and public nutrition programs.

But that set off alarms among Democrats, who quickly rejected the effort.

WHY TITLE I MATTERS

During a crop insurance agent meeting in Boston, Dr. Joe Outlaw of Texas A&M said there are "way too many headwinds" for his comfort, especially relative to corn. Thus, the need for an effective Title I safety net, including:

- The U.S. was surpassed by Brazil as top corn exporter last year. Corn export share as a percent of use is declining.
- Bean export share as a percent of use is also projected to decline but is roughly triple that of corn.
- Ethanol is on poor footing... "so far not green enough... and the push for electric vehicles."
- Soybeans have been betting on sustainable aviation fuel "as the savior... now so is corn." He quipped: "This is almost as bad as having to depend on China to buy your crops."

Outlaw said, "Our friends from the Midwest insist southern crops are too dependent on government subsidies." He then questioned crop insurance agents: "How many corn policies would you be selling without mandated ethanol taking 45% of annual corn production? FYI: In economics, the impact of a mandate is more than a subsidy."

Source: Ag Letter editors

Big issue: Need for higher reference prices, with potential costs running into the tens of billions. With no new funding available, any new initiatives must be balanced within the farm bill.

Senate Ag Chairwoman Debbie Stabenow (D-Mich.) opposes cuts to SNAP/food stamps and the redirection of the $20 bil. allocated to USDA conservation programs by the 2022 IRA/ Climate Bill). The House GOP proposal involved diverting the $20 bil. to finance higher reference prices and preventing updates to the Thrifty Food Plan. Farm groups are prioritizing higher reference prices to facilitate subsidy payments to crop growers, while some Republicans view the $20 bil. for climate mitigation as available for other purposes.

Dems have their own demands… insisting House Ag Committee leaders reject cuts.

Push for higher reference prices is a regional issue. Corn and soybean growers will see their reference prices rise without a farm bill change… due to language in the 2018 Farm Bill.

Cotton, rice and peanuts will not see a similar reference price increase... why Sen. John Boozman (R-Ark.) will not support a farm bill without a boost in reference prices.

Compromise will be needed. "I've never seen a farm bill debate without a middle ground," says consultant Randy Russell of the Russell Group.

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CCC FUNDING

USDA taps $2.3 bil. from CCC fund for trade promotion and food aid. USDA released $2.3 bil. from the Commodity Credit Corporation (CCC) to support trade promotion and international food aid programs. USDA Secretary Tom Vilsack made the announcement during the World Food Prize's Borlaug Dialogue in Des Moines, Iowa, responding to a request from Senate Agriculture Committee Chairwoman Debbie Stabenow (D-Mich.) and Sen. John Boozman (R-Ark.). The funds will be allocated as follows:

• $1.3 bil. for the Regional Agricultural Promotion Program (RAPP) to diversify export markets and provide support to specialty crop industries.

• $1 bil. to address global hunger through food aid programs.

Vilsack emphasized the importance of the CCC and USDA's market development and aid programs, especially amid challenges in international commodities markets and global food insecurity. These funds will help strengthen the presence of U.S. agriculture in existing and new markets, ensuring that high-quality American agriculture and food products reach those in need worldwide.

He highlighted the growing agricultural trade deficit and increased competition in export markets, emphasizing the need for additional investments in market development and diversification away from dependence on a few large markets.

The funds for trade promotion and food aid will not be part of traditional programs but will instead be allocated to the RAPP to enable exporters to enter new markets and increase market share. Additionally, there will be targeted technical assistance to the specialty crops industry.

USDA said the recent challenges in supply chains and ongoing conflicts have exacerbated global food insecurity. An estimated 205 mil. people require life-saving food assistance, and 768 million people face chronic hunger. The U.S., with its surplus commodities, is well-positioned to address these gaps by extending food aid to those in need globally. The $1 bil. donation will support efforts to combat global hunger and aid U.S. agriculture through the purchase of surplus commodities, in collaboration with the U.S. Agency for International Development (USAID)

ERP

Emergency Relief Program (ERP) payments rise to $8.19 bil., while CFAP totals see minor adjustments. After a period of relative stability, Emergency Relief Program (ERP) payments have been adjusted higher by USDA as of Oct. 23. The total ERP payments now stand at $8.19 bil., up from the previous figure of $8.16 billion.

Notably, ERP Phase 2 payments have increased to $742.99 mil., compared to the earlier figure of $714.95 million. The number of payment recipients has also grown and currently stands at 9,968.

The Coronavirus Food Assistance Program (CFAP) figures have seen minor changes, with total CFAP 1 payments edging up slightly to $11.84 bil., as opposed to the previous $11.83 billion. Most other totals within these programs have remained relatively consistent as of Oct. 23.

SBM EXPORTS

Record high expected for U.S. soybean meal exports in 2023-24. The U.S. is on track to achieve a record-breaking year in soybean meal exports, with an estimated 13.2 mil. tons shipped in MY 2022-23, valued at nearly $7 billion, according to USDA.

Surge in exports is attributed to increased soybean crush for biomass-based diesel production and expanded shipments to the European Union and Vietnam, as Argentina's soybean meal exports were hampered amid a drought-stricken crop.

Looking ahead to 2023-24, U.S. soybean meal exports are projected by USDA to set a record at 13.9 mil. tons. With competitive pricing compared to So. American supplies and a surplus of soybean meal production, the U.S. aims to meet global demand for this essential ag product.

TRANSPORTATION

St. Lawrence Seaway workers strike, disrupting cargo shipments between Montreal and Lake Erie. The halt in operations is expected to impact the North American economy and supply chain, particularly the movement of essential commodities like grain.

Over 100 vessels outside the system are affected by the situation, while negotiations, which began in June, remain at a standstill.

Perspective: The strike comes after nearly $16.7 bil. worth of cargo, including grain and iron ore, transited through the seaway last year.

CO2 PIPELINE

Navigator CO2 Ventures cancels $1,300-mile. $3.5 bil. carbon capture pipeline amid regulatory challenges. The project, known as the Heartland Greenway, faced difficulties, including a permit denial in South Dakota, permit withdrawals in Illinois, and ongoing regulatory issues in Iowa.

The decision was welcomed by pipeline opponents, while two other companies, Summit Carbon Solutions and Wolf Carbon Solutions, continue to pursue carbon capture pipeline projects in the Midwest. These pipelines aim to transport carbon dioxide emissions from ethanol and other plants to underground storage sites.

Ethanol proponents argue that these pipelines are crucial for reducing the carbon footprint of the ethanol industry and receive support from the Biden administration, which offers tax credits for carbon capture projects.

Some believe that states resisting such projects risk falling behind in adopting these technologies. But opposition remains strong on concerns about safety, farmland damage, and landowner rights. Landowners who sold easements to Navigator will retain the compensation they received.

MARKETS

Corn: Harvest has moved along rapidly this fall with few interruptions until very late in October. But with activity running well ahead of the average pace, a brief hiatus in harvest activity will not cause issues. Yield results continue to come in “better than expected,” but still under where things were in 2022. Demand is now the focus, with export sales needing to perk up in coming weeks.

Soybeans: Harvest has rolled along with little interruption; which has remained ahead of the average pace for this time of year. Yield have varied with the final stretch of harvest potentially not likely to shift results much. Soybean demand has picked up with fresh sales and strong inspections as we get closer to November.

Wheat: U.S. wheat has become more competitive on the world market, with China a notable buyer of U.S. soft red winter wheat. That was viewed as surprising to the market given that Russian supplies have continued to garner much of the global business at this stage. But demand for U.S. supplies continues to be limited by a still-strong U.S. dollar.

Rice: Global rice markets remain volatile and that has potential to prompt some extra demand for U.S.-origin supplies as buyers are seeking to secure food stocks for their consumers. But the still-strong U.S. dollar is limiting the ability of U.S. supplies to gain major traction in the global market. That could arise later in the season if global supplies remain tight.

Cotton: Prices have moved little while harvest continues to advance. Outside markets continue to influence cotton futures with concerns about demand from slowing economic results in various places around the globe limiting any positive price impact from a reduced U.S. crop. Hurricanes have not caused problems for the crop remaining in the field as of yet.

Dairy: Revised production data continue to back up the fact that dairy cow slaughter has run above expected levels for several months. That has brought milk prices back higher and appears to have started slowing milk cow slaughter. Key now will be whether that trend is sustained. But milk-per-cow continues to advance, potentially tempering herd reductions or at least minimizing the impact on milk output.

Cattle/Beef: Dry conditions in areas of the country where cow/calf operations are located resulted in a big push of animals into feedlots during September. The larger-than-expected feedlot placements will translate into higher supplies down the road. Cattle numbers remain tight, but extra supplies may temper the retail price and perhaps help some with domestic demand.

Hogs/Pork: Lean hog futures have come under pressure as hog supplies coming to market have exceeded expectations. The market is not flooded with supply, but there is still more product than expected. That could continue for a few weeks. While it may not produce major price pressure, it will cap rally possibilities.

Poultry: Highly pathogenic avian influenza (HPAI) is again on the radar for the U.S. poultry industry, on turkeys in particular. The 12 commercial operations confirmed with HPAI thus far are in four states. Mexico has responded with bans on imports of poultry/products from those states… Utah, South Dakota, Minnesota, and Iowa. Key for Iowa is the impact on egg shipments to Mexico.

AG FINANCE

Farmers tap savings instead of borrowing as high interest rates impact ag loans. Farmers are opting to tap into their savings from recent prosperous years instead of taking out loans at the highest interest rates since 2007, according to surveys conducted by regional Federal Reserve banks. Reports indicate the average operating loan issued last summer was almost 20% smaller than the previous year's average.

The Kansas City Fed noted that lending activity has weakened, influenced by nearly two years of rising interest rates on farm loans, which have significantly increased financing costs for farmers. While the farm economy has recently shown moderation due to narrower profit margins driven by lower commodity prices and increased expenses, credit needs have risen for many farmers, mainly due to high input costs. However, many producers have been able to supplement their financial needs with savings amassed during previous profitable years.

A look at farm income. USDA predicts that net farm income, a broad measure of farm profitability, will amount to $141.3 bil. this year, marking a 22% decline from the record $183 bil. in 2022. Despite this decrease, the income for this year would still be the second highest ever recorded and $40 bil. above the 10-year average. The decline in income is attributed to lower receipts from crop and livestock sales, coupled with higher expenses. The debt-to-asset ratio, which indicates solvency, is expected to decrease slightly.

Highest average interest rate on loans since 2007. The Kansas City Fed also reported that the average interest rate on various types of farm loans, after rising for nearly two years, has reached the highest level since 2007, standing at 8.34%. This surge in financing costs may have prompted farmers with substantial liquidity to limit their debt usage. However, any softening in farm finances could deplete cash reserves and result in increased demand for loans.

Because of reduced farm lending, the volume of operating loans exceeding $1 mil. has decreased by half compared to the previous year, and the volume of smaller-sized loans has dropped by 15%. This shift has favored smaller banks, which typically handle smaller loans, as they witnessed a 25% increase in non-real estate lending, while larger banks experienced a decline. The average operating loan for the summer amounted to nearly $59,000. Additionally, the average duration of new farm real estate loans has gradually increased over the past year, significantly exceeding the average loan duration from 2010 to 2020, while maturity dates for operating, livestock, and equipment loans remained stable.

CHINA HOGS

China's hog herd growing, putting pressure on prices. China's hog production is still growing, a farm ministry official said, with a higher-than-normal number of breeding sows set to maintain downward pressure on prices.

China had 42.4 mil. sows at the end of September, unchanged from the previous month, but 3.4% higher than the normal level, Chen Guanghua, head of the animal husbandry and veterinary bureau at the ag ministry said. "The level of pig losses may even be greater than that of the same period last year," he said, urging farmers to adjust their production.

ARGENTINA

Argentina expands export incentive program. The initiative, initially focused on boosting soybean and soybean products exports, will now encompass all export sectors for the next 30 days. Under this program, companies will have the opportunity to exchange 30% of their foreign currency earnings from alternative exchange markets.

10-YEAR TREASURY

The ten-year Treasury yields this week rose above 5% for the first time since 2007, as investors begin to anticipate that the Federal Reserve will keep interest rates higher for longer to keep inflation down. The U.S. economy has proven resistant in the face of tighter monetary policy, suggesting a delayed path to interest-rate cuts.

Best regards,

The Ag Letter Editors

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