FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 94, No. 25

Dear Client: Washington, Dec. 8, 2023

U.S. trade policy remains a big concern...

Ag sector and farm-state lawmakers fret that U.S. trade policy is now detrimental to farm exports.

AG TRADE POLICY

The U.S. must diversify markets beyond a few major spots like China, says USDA Secretary Tom Vilsack.

The Regional Agricultural Promotion Program (RAPP) aims to expand exports to markets beyond China, Mexico, Canada and the European Union (EU).

Africa and Asia present growth opportunities for U.S. ag exports, Vilsack adds. Africa is a target for expansion, with $25 mil. allocated for promotional efforts.

Why U.S. ag trade proponents are worried:

• U.S. ag exports will be the smallest in four years due to lower prices for wheat, corn and cotton.

• Unless trade barriers are reduced or eliminated in targeted countries, all the promotion funding in the world won't help. Of note: Japan accounts for the same percentage of U.S. ag exports as the EU. USDA did not block Japan from RAPP, but it did block the EU.

Why a change in trade policy direction is needed:

(1) Record U.S. ag trade deficit;

(2) Brazil will likely be the largest world corn exporter for the second consecutive year;

(3) Brazil looks to take over being the world's largest cotton exporter;

(4) USMCA's decision on the U.S. complaint that Canada isn't following through on a promise to give more market access to certain U.S. dairy products and

(5) Growing carryover and lower prices for some U.S. crops, especially corn.

CHINA & U.S. PORK

China has granted approval to a dozen U.S. pork facilities to export their products, as part of the U.S./China Phase One Economic and Trade Agreement. This move is expected to bolster U.S. pork exports to China.

The significance lies in the fact that the U.S. pork industry heavily relies on exports, constituting about a quarter of all sales and contributing significantly to producers' profits. China is among the top five foreign destinations for U.S. pork exports, with China/Hong Kong accounting for nearly $1.4 billion of U.S. pork exports in 2022, making it the second-largest export market.

While this development is welcomed, concerns remain regarding China's tariffs on and non-tariff barriers to U.S. pork. For instance, China still imposes requirements for the registration of food manufacturers, processors and storage facilities, and it bans the feed additive ractopamine. Additionally, since April 2018, China has applied a 25% retaliatory tariff on U.S. pork in response to U.S. tariffs on Chinese steel and aluminum exports to the United States.

Source: Ag Letter editors and NPPC

Over 30 ag organizations sent a letter to the President's Export Council, urging action to address trade issues in the U.S. food and agriculture sector.

The ag sector saw a $2.4 billion trade deficit last year, a significant departure from the previous decade's average surplus of $12.5 billion. With a 9% decrease in the value and a 16% decrease in the volume of food and agricultural exports, these organizations are calling for several measures.

• Diversifying sourcing or incentivizing cost-effective U.S. production of agricultural inputs like fertilizers, vitamins and chemicals to maintain domestic agricultural production.

• Establishing a robust ag trade agenda... expanding domestic trade promotion programs, recommitting to comprehensive trade agreements, and removing tariff and non-tariff trade barriers.

• Enforcing existing trade agreements including strengthening the World Trade Organization dispute resolution process.

• Promoting a unified message on ag sustainability through voluntary, incentive-based programs that support sustainable productivity growth, accessibility of food, climate-smart ag practices, and additional market opportunities.

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, 8725 Rosehill Rd, Suite 200, Lenexa, KS 66215.

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FARM INCOME

A decrease in U.S. farm sector profits in 2023 versus the record-high levels of 2022 is the lastet from USDA. Inflation-adjusted net cash farm income (NCFI) is forecast to decline by $49.2 bil. (23.8%) from 2022, reaching $157.9 bil. in 2023. Similarly, net farm income (NFI) is expected to drop by $37.9 bil. (20.0%) to $151.1 bil. in 2023. NCFI represents gross cash income minus cash expenses, while NFI provides a broader measure of farm sector profitability, incorporating noncash elements such as changes in inventories and depreciation.

These projected decreases come after both NCFI and NFI reached all-time highs in 2022, totaling $207.1 bil. and $188.9 bil., respectively.

Cash receipts for farm commodities are anticipated to decline by $43.0 bil. (7.8%) in 2023 compared to 2022, with decreases expected in milk, corn and broiler receipts.

Total production expenses are expected to remain relatively stable, with a slight increase of $0.6 bil. (0.1%) to $443.4 bil. in 2023. However, individual expense items may vary, including an increase in interest expenses and reductions in spending on fertilizer, lime, soil conditioner and feed.

Interest expenses in 2023 "are forecast to have the most significant increase in nominal terms at $10.3 bil. (42.9% above the 2022 value) to $34.4 bil. in 2023. This reflects expectations that both total debt levels and interest rates will rise in 2023," USDA said. This is the highest level to-date in nominal terms, but is still well below the early 1980s when interest expenses were at least 50% higher in inflation-adjusted dollars.

Direct government payments to farmers are pegged to decrease by $4.0 bil. (24.8%) in 2023 to $12.1 bil., primarily due to lower supplemental and ad hoc disaster assistance.

The Dairy Margin Coverage Program (DMC) is forecast to make $1.3 bil. in payments in 2023, which is up by $1.1 bil. vs 2022, due to lower milk prices in 2023 compared to 2022.

Minimal payments under the Ag Risk Coverage (ARC) & Price Loss Coverage (PLC) are in the outlook. Combined, the programs are forecast to pay out $343.7 mil., down $28.8 mil. from 2022.

Financial indicators still solid. Farm sector equity is expected to increase to $3.57 tril. in 2023, up 6.9% from 2022 with assets rising to $4.09 tril., up $254 bil. or 6.6%. Farm sector debt is expected to rise to $520.7 bil. in 2023, up $24.6 bil. from 2022. The increases, the financial ratios covering debt to assets and debt to equity are still in very solid condition. Debt-to-asset levels for the sector are estimated to improve from 12.93% in 2022 to 12.73% in 2023. Working capital is expected to fall 5.0% in 2023 relative to 2022. The debt-to-equity ratio is also seen improving to 12.58% in 2023, down from 12.85% in 2022.

Working capital is now seen at $122.59 bil., down from $129.05 bil. in 2022, but just above the level forecast the level of $121.92 billion projected in August.

Perspective: Danny Munch, an economist with the American Farm Bureau, says the picture is a little brighter than the August predictions, but not much. In the August reports, USDA said farm income from 2022 would drop 23%, a $41 bil. decline from 2022. In the November report, USDA adjusted that number... $41 bil.... to $31.8 bil., which is a 17% drop from 2022. In total, that would result in a total net farm income of $151 bil. for 2023 compared to the $141 bil. estimated previously in August.

Some of the main factors behind the revisions: Munch says the most significant revisions are attributable to lower production expenses compared to what USDA estimated in August. "There's still a $14.9 bil. expected increase in what farmers are paying for production expenses, which is about 4%. But that's 7% lower than what they forecasted in the August release."

Munch says there is some good news about the forecast, though overall it is a mixed bag. Munch: "For all categories except fuels and oils, electricity and interest expenses, they adjusted their numbers downward. Things like fertilizer, pesticides, seeds, those all saw decreases from what they estimated that farmers will be paying. Electricity, fuels, oils, interest expenses all saw increases. So those are things farmers saw upward adjustments and are going to pay more for in 2023 than they estimated previously."

Bottom line: Look for farm bill proponents to note the declining income picture as a key reason lawmakers should finish work on the next farm bill and improve the farmer safety net.

MEAT INDUSTRY

NAMI promotes meat industry's sustainability at COP28. The North American Meat Institute (NAMI) is using the UN Climate Change Conference (COP28) in Dubai to highlight the sustainability efforts of the meat industry through its associated livestock sustainability strategy, Protein PACT for the People, Animals, and Climate of Tomorrow.

This move follows increasing attention on greenhouse gas emissions linked to livestock farming and meat and dairy consumption. NAMI is participating in COP28 as an observer, and Protein PACT is the principal sponsor of the Inter-American Institute for Cooperation on Agriculture's (IICA) Sustainable Agriculture of the Americas Pavilion. They plan to organize six expert panel discussions and host a reception to emphasize the role of meat and dairy in sustainable agriculture.

NAMI's Chief Strategy Officer, Eric Mittenthal, mentioned their intention to engage in the summit to assess progress in sustaining nutrient-dense foods like meat and dairy for future generations, including sharing their greenhouse gas inventory tool and sector-wide data reporting. Dr. Manuel Otero, the Director General of IICA, highlighted the centrality of livestock production in various sustainability solutions — environmental, economic, and social — and expressed their commitment to advocating for sustainable agriculture, including livestock production, at COP28 and beyond.

MARKETS

Corn: Court filings now establish March 28, 2024, as the target date for EPA to issue the final rule on year-round sales of E15 in eight Midwest states. While it will apply to only eight states, this will impact a considerable portion of the U.S. fuel supply. Meanwhile, the Treasury Dept. this month will determine which commodities/fuels qualify for the Sustainable Aviation Fuel (SAF) tax incentive. That is a major focus of the corn-based ethanol industry.

Soybeans: South American news has been mixed, with talk of a temporary improvement in Brazilian weather partially offset by reduced estimates of that country's bean crop. In contrast, Argentine bean production is expected to bounce back strongly from last year's disaster. The tight U.S. situation should provide underlying support. Seasonal strength is ahead.

Wheat: China is quietly buying more U.S. wheat. For 2023-24, outstanding sales to China total the most since 2020-21. Total commitments (sales + exports) to China stand at over 1 MMT.

Rice: The onset of El Niño, which typically brings drier conditions to growing areas in Asia, is poised to crimp supply even further. Thailand's rice production is set to decline 6% in 2023-24 due to the climate phenomenon, while Vietnam directed some farmers to plant their new crop early, warning of drought risks. Thai white rice 5% broken… an Asian benchmark… has jumped by $57 recently to $640 a ton, nearing a 15-year high.

Cotton: Brazilian farmers are expected to increase their cotton acreage for 2023-24 by 14% to 1.94 mil. hectares due to better returns, especially in Mato Grosso, according to Agroconsult. Farmers favor taking their chances for a good crop of cotton instead of uncertainties with soybeans and then planting safrinha corn after the ideal window, which closes around Feb. 20.

Dairy: A trade dispute settlement panel established under the U.S.-Mexico-Canada Agreement (USMCA) rejected a complaint filed by the U.S. against Canada pertaining to Ottawa's alleged improper limitation of access to its dairy market. U.S. Trade Representative (USTR) Katherine Tai stated the U.S. would use all available tools to enforce trade agreements.

Cattle/Beef: Boxed beef values are surprisingly stable at record-high levels for this time of year. Indeed, Choice beef firmed in late November. Moreover, recent bearishness sent early-2024 live cattle futures sharply lower, incentivizing feedlot operators to cut placements and market their cattle more aggressively. *Pro Farmer* believes this will give the long-term bull market new life, with the potential to hit fresh highs next spring.

Hogs/Pork: USDA will extend for up to 90 days a trial program allowing six pork plants to operate faster processing-line speeds while collecting data on how that impacts workers. The National Pork Producers Council said, "Without the extension, pork producers would incur additional losses of nearly $10/head in Q1 and Q2 2024."

Poultry: Tyson Foods inaugurated an advanced $300 mil. manufacturing plant in Danville, Virginia, focused on automating the production of chicken nuggets and value-added products. This facility, spanning 325,000 square feet, will produce Tyson brands like Any'tizers snacks and chicken nuggets. The plant utilizes automated case packing lines and high-speed robotic case palletizing units. Once operating at full capacity, it's expected to produce 4 mil. pounds of protein weekly, sourcing poultry from Virginia.

U.S. SUGAR PROGRAM *Southern Ag Today* assesses recent GAO sugar program report. The recent report by the U.S. Government Accountability Office (GAO) evaluating the effects of the U.S. sugar program has come under scrutiny. The report, which focused on the impact of the sugar program on food companies and consumers, has faced criticism for not presenting a balanced view of the program's effects. Some key points of contention include, according to the report:

• Emphasis on Harm to Food Companies: The report primarily highlighted complaints from sugar-using groups regarding the prices paid for sugar, without quantifying the benefits these companies receive from the sugar program. It failed to acknowledge consumer preferences for domestically sourced sugar and the reliability of domestic sugar supply chains facilitated by the program.

• Omission of Recent Studies: The GAO report neglected to include recent studies that indicate the success of sugar-using firms operating within the program's framework. These studies demonstrated the financial outperformance of large sugar-purchasing food companies.

• Lack of Updated Consumer Impact Analysis: The report referenced a GAO report from 2000 regarding the effects of the sugar program on consumers, rather than using more recent studies. Recent research suggests that savings from changes in sugar prices are not passed on to consumers by food manufacturers.

• Failure to Address Loan Rate and Production Costs: The report missed an opportunity to compare sugar loan levels in the farm bill to the actual costs of producing sugar. Current production costs for sugarbeet and sugarcane are significantly higher than in 2018, when the last farm bill was enacted.

• Overemphasis on Welfare Economic Studies: The report relied heavily on welfare economic studies that provide a one-sided view of the sugar market. These studies do not capture the real-world benefits of a strong domestic supply chain and the threats posed by foreign governments in response to changes in U.S. sugar policy.

• Neglect of Economic Contributions: The report did not acknowledge the economic contributions of the sugar industry to rural and urban communities in the United States, including supporting jobs and contributing billions to the economy.

• Recycled Recommendations: GAO's recommendation to analyze alternative mechanisms for administering preferential-quota access to trade partners was like one made nearly 25 years ago, lacking new insights.

Bottom line: Critics argue that the report missed an opportunity to provide a balanced assessment of the U.S. sugar program, including its benefits, and did not contribute substantially to the ongoing discussion surrounding the new farm bill.

SUGAR IMPORTS USTR reallocates unused FY 2024 sugar import quotas. The Office of the U.S. Trade Representative (USTR) announced the reallocation of unused country-specific quota allocations for imported raw cane sugar in fiscal year (FY) 2024. The total in-quota quantity for raw cane sugar for FY 2024 is 1,117,195 metric tons raw value (MTRV), which represents the minimum WTO commitment by the U.S. Initially, USTR published the country-specific allocations in July. This recent announcement involves reallocating 223,740 MTRV of the original TRQ quantity from countries that have indicated they will not fill their FY 2024 allocated raw cane sugar quantities.

USDA AID PROGRAM 1,300 farmers to receive $208 mil. in USDA aid via guaranteed and emergency loans. This aid is provided as part of an ongoing program aimed at supporting distressed borrowers.

FOOD INDUSTRY Kroger trims sales view on lower prices, choppy grocery demand. Kroger cut its annual sales forecast, pinched by moderating food and grocery prices at a time when demand has come under pressure from consumers keeping a tight lid on spending.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

Dec. 8, 2023

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