

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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A preview of key U.S. and global 2024 topics...

2024
ISSUES

1) Geopolitics: big risks going into 2024. Consider:

- Middle East escalation (Hamas/Israel expands into regional conflict).
- Europe escalation (Russia/Ukraine challenges, EU/NATO stability).
- Asia-Pacific escalation (Taiwan, South China Sea, North Korea).
- North America (messy U.S. election, border security, civil relations).

2) Inflation around the globe is slowing faster than expected and could be back in central banks' comfort zones by the end of 2024 after multidecade highs, economists say.
This could mean a U.S. interest rate cut in March...
 most say May. Higher rates are a big drag on farm profits.

3) U.S. budget deficits keep rising and this will become an issue in Congress... and could impact any move to boost spending on a new farm bill. Republicans have resurrected this issue after being nearly speechless on it for years.

Details: The Congressional Budget Office projects a federal budget deficit of \$1.4 tril. for 2023 and \$1.7 tril. for 2024. The deficit amounts to 5.3% of gross domestic product (GDP) in 2023, swells to 6.1% of GDP in 2024 and 2025, and then declines in the two years that follow.

4) Major economic challenges for Argentines, due to soaring inflation following a recent devaluation of the peso. Prices are surging, with annual inflation exceeding 160%, primarily attributed to the expansive money printing policies of the previous government. The new libertarian president, Javier Milei, initiated a "shock therapy" economic plan, including a 54% devaluation of the peso's official exchange rate to 800 pesos per dollar. This has intensified inflation, with projections of month-on-month inflation reaching around 25% in December, potentially resulting in an annual rate of over 210%.

The rapid price increases have affected everyday staples like rice, bread, pasta and milk, which have seen price jumps of up to 50% in a single week after the devaluation. Fuel prices have also surged, almost 80% since the beginning of December, partly due to the devaluation and the expiration of price-fixing agreements.

Beef, a central component of many holiday dishes, has risen by 40%, but the gov't struck a deal with major supermarket chains to fix its price until the end of December. There is hope the government's stabilization program will eventually lead to lower inflation rates in the second half of the year. But a significant portion of the population is already living in poverty/

For the ag sector: Milei proposed raising the tax on soyoil and soymeal exports by two percentage points to 33%, which would be the same as soybeans. Milei also wants to raise the tax on corn and wheat exports by three points to 15%. These changes would need congressional approval.

KEY FORECASTS

• U.S. economy: Consensus is a recession can be avoided, assuming no major shocks. Growth is expected to ease under 2% vs. 2.5% in 2023, as higher interest rates take their toll on consumers and businesses. While the first half of the year will see anemic growth, second half will improve as rates are lowered. .

• World economy will be a drag as virtually every country deals with higher rates and lingering inflation. On the positive side: supply chains are mostly back. Perspective: For robust ag exports, world GDP needs to be 4.5% or higher... but most estimates for 2024 are around half that level.

• U.S. food prices: USDA sees food price inflation at just 1.2% in 2024 for all foods, down from 2.9% in November, and the smallest rise in food prices since they increased 0.9% in 2017. Food at home (grocery) prices are seen falling 0.6% in 2024, down from an increase 1.6% in November... would be steepest decline in grocery prices since falling 1.3% in 2016. Prices also decreased in 2017 by 0.2%. Restaurant prices, however, are now expected to increase 4.9%, up from 4.3% in November and the highest forecast since USDA started releasing its 2024 outlook in July.

Source: Ag Letter editors

5) Farmland outlook. Recent months have seen decreased demand and a softening in *some* prices, but nothing major. Lower interest rates should revive demand... and prices.

6) Carbon mitigation/credits for the ag sector. This year could show some innovative newcomers that would allow U.S. farmers to keep more of the money from carbon mitigation efforts.

7) Sustainable aviation fuel... SAF. March brings EPA details on allowable feedstock with initial signals corn-based ethanol will qualify for the incentive credits. The tax credit is retroactive to Jan. 1, 2023, and extends through Dec. 31, 2024, before transitioning to the Clean Fuel Production Credit (45Z), also established under the Inflation Reduction Act... aka Climate Bill. The global SAF market was valued by Exactitude Consultancy at \$84.70 mil. in 2022, and is projected to reach around \$9.8 bil. by 2029, registering a CAGR of 60.8% from 2023 to 2029.

Perspective: USDA estimates that 47% of U.S. soybean oil production, equivalent to 12.8 bil. pounds, will be used in biofuels for the 12 months starting on Oct. 1... a significant increase from two years ago when 40% of soybean oil production, or 10.4 bil pounds, went into biofuels. USDA's long-term projection suggests that 49% of soybean oil production, totaling 13.6 bil. pounds, will be used for biofuels in the year beginning Oct. 1, 2024, and 14 bil. pounds the following year. Around 55% of U.S. biodiesel is produced from soybean oil, maintaining its dominant position.

8) New farm bill: The issues and timeline are well known: Policy and funding issues are hurdles. With Democrats sensing they could regain control of the House following 2024 elections, that could mean they will slow walk a new farm bill until after election results are known.

9) Fertilizer supply and prices. Mark Milam, editor at ICIS (Independent Commodity Intelligence Services), provided insights into several key agricultural and fertilizer-related topics:

- Fall trends for acreage projections: Increased corn acreage based on ammonia applications, as growers typically make such input purchases if they plan to plant corn. Sentiment suggests corn acreage could be in the mid-90 million-acre range for the upcoming season.

- Fertilizer price outlook for winter/spring: Wholesale fertilizer prices experienced a decline in November but may have stalled due to concerns about tighter nitrogen and phosphate supply. Upcoming prices will depend on how much supply has been positioned for spring and the pace of river system availability for transportation as spring approaches. There is speculation about the potential for a rapid price increase if global demand surges, even if U.S. spring demand is not fully engaged. Low water levels could impact fertilizer cost and access, with the ag and transport sectors hoping for a wet and snowy winter to alleviate transportation issues.

- Global supply/demand issues: Geopolitical tensions and their potential impact on fertilizer supply to the U.S. are a concern, but they have not caused disruptions or affected pricing so far. The European fuel situation, particularly gas prices, could impact availability and consumption levels for other needs. Global demand for fertilizer is expected to continue growing as long as crop production remains on the rise, with weather issues such as drought always a challenge for agriculture.

- Impact of China's protectionist stance on fertilizer exports: China's restrictions on fertilizer exports are seen as a longer-term market complication. The inspection requirements and potential quotas are expected to limit exports through 2024 and into early 2025. However, some believe there is sufficient urea available in the global market even without China's participation. The disconnect in typical import levels of urea in the U.S. and domestic supply availability is attributed more to logistical issues related to barge transport rather than supply shortages.

10) 2024 elections. Barring major unknown developments, it looks like a Biden vs. Trump rematch for president, but Biden's very low ratings and age/mental acuity...and concern about current VP Kamala Harris... could mean a potential surprise. The outcome will depend on just a few states (Ariz., Ga., Mich., Nevada, N.C., Pa., and Wis.) and key issues including number of voters, any voter enthusiasm gap, independent voters, Black and Hispanic voters, and third-party candidates.

House outcome will be very close, again, and redistricting issues could be key.

Senate: With W.Va. likely a GOP pickup, it's at least a 50/50 Senate (VP breaks ties), with Montana, Ohio, Ariz. and Nevada races (now held by Dems) determining who controls the chamber.

The push toward protectionist trade policies is continuing in the U.S., just under different branding in different administrations. “America First” and “Make America Great Again” have been replaced with “de-risking,” “diversifying” and “level the playing field,” but the results are often the same and built on platforms that seek to address national security concerns, the loss of manufacturing jobs, or risks associated with the supply chain. Billions of dollars in subsidies have even been doled out to the various American sectors to encourage domestic production, tariffs and quotas remain in place on many imports, and economic sanctions are increasingly being used as a tool to stabilize markets rather than deterrence.

Foreign adversaries have been using the structure to weaponize the system. In recent years, the U.S. has passed mega-spending bills like the Inflation Reduction Act, which poured billions of dollars into domestic energy production, after watching Russian President Vladimir Putin turn off the taps to the EU. The CHIPS and Science Act also offered generous tax credits and subsidies to shore up the domestic semiconductor industry, while export controls have been put in place, as Xi Jinping seeks advanced chip technology to promote a new world order.

MARKETS

Corn: Futures continue to closely track the 2010-14 period. If that pattern holds, there should be a general uptrend in prices through the first quarter of the new year. For an extended price rally, the market will need a bullish catalyst.

Soybeans: A market rally will likely come during the early stages of the new year, say *Pro Farmer* analysts. If soybeans echo their 2014 performance, front-month futures would rally above \$15.00 by early spring. That would likely require more reductions to Brazil's crop and a steady increase in Chinese purchases of U.S. soybeans.

Wheat: Recent Chinese buying of U.S. wheat could have forged a major low. But export demand remains far from strong enough to produce sustained price strength, suggesting choppy near-term price action. For a rally to unfold, the corn and/or soybean markets likely need to lead the way... unless China remains an active buyer of U.S. wheat early in the new year.

Rice: Global rice prices are not expected to cool down significantly before 2025 due to export curbs from major producing nations and a continuing threat of El Niño, the World Bank Global Commodity Outlook said. The report also said that global rice prices that averaged around 30% higher in 2023 than in 2022 are expected to increase by another 6% or so in 2024. This is partly due to the threat of El Niño, policy response from significant exporters and importers, and the geographical and market concentration of rice production and exports.

Cotton: Market is in a holding pattern and will likely respond with a big price move in either direction. Demand will be the likely price mover over the first half of the year... especially Chinese demand. From a supply perspective, analysts expect U.S. acreage to climb in 2024.

Dairy: January and February Class III milk prices are below \$16 per hundredweight. Class IV futures remain in the \$18 and \$19 per cwt range for 2024. Feed prices have eased, but with revenue from milk sales down, financial strain on dairies will limit production growth.

Cattle/Beef: Heavy fund liquidation took the wind out of bulls' sails since mid-September. *Pro Farmer* analysts expect a major price recovery during 2024. Supply-side fundamentals will remain bullish in the new year, especially if cow-calf operators begin to actively rebuild herds, which would reduce the beef supply as heifers are held back. But demand concerns could be the caveat.

Hogs/Pork: USDA estimated the U.S. hog herd at 74.971 mil. head as of Dec. 1, up 15,000 head from year-ago, whereas traders expected a 481,000-head decline based on the average pre-report estimate. The market hog inventory increased 221,000 head (0.3%) from year-ago, while the breeding herd declined 205,000 head (3.3%). The fall pig crop dropped only 0.2%. While fall farrowings fell 4.0%, litter size jumped 3.9% to a record 11.66 head. Meanwhile, U.S. pork exports are growing. Sales to Mexico are making monthly records. With sow herd liquidation in Mexico cutting production further, U.S. pork exports should continue at a high level. Traders apparently remain confident about the short-term hog outlook, as indicated by the recent strong February futures closes and the latest quotes for the CME Lean Hog Index.

Poultry: USDA confirmed highly pathogenic avian influenza (HPAI) in additional commercial operations in several states that have already reported cases, including in a Merced County, California, commercial table egg layer flock with 709,000 birds. This issue will linger as 2024 unfolds.

CROP
REPORTS

NASS reviews crop reporting. USDA's National Agricultural Statistics Service (NASS) conducts a comprehensive review of its estimating programs every five years following the Census of Agriculture. The objective is to ensure that the annual estimating programs focus on the most relevant commodities and states within U.S. agriculture. This review considers various sources of information, including data from the agricultural census and public input. NASS began the program review process and invited public feedback that had a deadline of Jan. 5, 2024.

RICE

Indonesia makes rice purchases. Indonesia's food procurement agency Bulog confirmed it had filed a tender for more than 500,000 MT of rice as part of the import quota for 2023. The purchases will be from Thailand, Vietnam, Pakistan and Myanmar, with more than 300,000 MT sourced from Thailand. Indonesia is said to be seeking 1 MMT of rice from the private sector and 1 MMT in government-to-government deals. Bulog said last month the government would set this year's rice import quota at 2 MMT, down from last year's quota of 3.8 MMT.

CHINA'S
CURRENCY

Yuan overtakes yen in global payments due to low interest rates. China's currency, the yuan, surpassed the yen's share of global payment transactions for the first time in nearly two years. This shift is attributed to China's low interest rates, which have enhanced the appeal of its currency for financing trade with the second-largest global economy. Data from international payments platform Swift revealed that the yuan's share of global payments increased to 4.6% in November, up from 3.6% the previous month.

This milestone marked the first time since January 2022 the yuan surpassed the yen, making it the fourth most-used global currency, following the pound sterling, euro, and the leader, the U.S. dollar. Beijing has been actively working to increase the international profile of its currency as part of a broader strategy to reduce China's vulnerability to the long-standing dominance of the U.S. dollar in global finance.

Around 20% of the world's oil is bought and sold in currencies other than the U.S. dollar, according to JPMorgan Chase.

TRADE
POLICY

USTR extends exclusions on Section 301 tariffs on Chinese goods. These exclusions, which were previously set to expire on Dec. 31, have now been extended through May 31, 2024. Additionally, USTR has announced the opening of a public comment docket on Jan. 22 for existing exclusions. The purpose of this extension is to facilitate a structured transition as the exclusions come to an end. It will also consider cases where there is evidence that additional time might lead to changes in sourcing to the United States or other countries, aligning with statutory factors and objectives. This extension will play a role in coordinating further decisions on these exclusions within the context of the ongoing four-year review process..

Trade relations with China could be a major issue in the 2024 presidential election. Former President Trump made confronting China a central theme of his presidency, and during his last campaign argued that President Biden's clean energy initiatives would ultimately benefit China. Some other Republicans have also attempted to portray President Biden as being lenient on China. Robert Lighthizer, who played a key role in shaping trade policy during the Trump administration and continues to advise the former president, has been in contact with congressional Republicans regarding trade matters, according to sources familiar with the situation. Lighthizer has testified before the House select committee on China, where he advocated for the United States to increase tariffs on Chinese imports.

HAPPY NEW YEAR! Our list of key 2024 topics makes it clear this year will be another volatile one, laced with potential market-moving events. Thanks for allowing us to monitor them for you.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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