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Dear Client: Washington, Jan. 19, 2024

Congress is back from the holiday break and to no one's surprise they are still confronting key issues they could not settle in 2023.

2024 ISSUES

Fiscal year (FY) 2024 issues will linger into at least March. House GOP conservatives will link the topic to their key issue: the need for border policy reform.

Release of President Biden's FY 2025 budget requests is expected to be delayed until March. Typically, the budget is released about two weeks after the State of the Union (SOTU) address. Due to the delay in completing action on FY 2024 bills, the SOTU address was scheduled for March 7. That signals the budget release is likely to occur in mid-March, but there is no requirement for the SOTU to precede the president's budget release.

A new farm bill in March is still on House Speaker Mike Johnson's (R-La.) wish list, according to key congressional sources. Getting floor time in March could be hard, and lawmakers still must deal with lingering FY 2024 spending issues.

Farm bill hurdles are still unresolved. Those include additional funding needed to improve the Title I safety net for farmers, and disagreement over other policy issues including nutrition and conservation spending.

More aid for Ukraine, Israel and Taiwan is being held up by House GOP rebels and other conservatives who want more transparency on where the prior billions of U.S. taxpayer money to Ukraine has gone, and they want to link further aid to better border protection policy.

Democrats are balking at specific House GOP border language, which some say is a smokescreen to not grant Ukraine additional funding.

2017 tax cuts expire end of 2025. These are not paid for and are not in the budget baseline. To extend them all: $3.5 tril. over 10 years. A few of them:

- Estate and Gift Tax Exemption: High exemption rates would be cut in half after 2025.
- Individual Income Tax Rates: Will revert to prior higher levels.
- Standard Deduction: Standard deduction was doubled but temporary.
- Capital Gains Tax Threshold: Was decoupled from ordinary income tax brackets. Will revert after 2025.
- Qualified Business Income Deduction Lapses: So-called Section 199A deduction for S-Corps including all cooperatives and family-owned businesses to equalize tax treatment with C-Corps. Corporate rate is permanent at 21%, but to find money, it could be raised.

A tax deal is being negotiated with its eventual fate murky, especially in an election year. The around $70 bil. tax package proposal... *see box*... has benefits for businesses and low-income families, which is why it has support from Democrats and Republicans in both chambers.

POSSIBLE TAX PACKAGE

• **A tax deal under review in Congress** aims to expand the child tax credit, revive business tax breaks, make changes benefiting smaller businesses and address tax reporting for contractors. It also includes measures to boost the supply of affordable housing.

• **Key:** Lawmakers are mulling making deductions for research and development (R&D) spending, interest costs and equipment or machinery purchases fully retroactive. This means that businesses may be allowed to apply these deductions retroactively, potentially benefiting from tax savings for expenses incurred in previous tax years. This move could provide businesses with financial relief and incentivize investment in R&D, equipment and machinery.

Note: Foreign R&D spending is not in the proposal.

• **Market impact:** While the extra cash would boost consumer spending, it would also risk reigniting inflation pressures... complicating prospects for the Federal Reserve to lower interest rates this year, economists warn. Analysts say much will depend on the final details of any agreement and how the tax breaks will be structured. The draft deal would extend breaks through 2025. If approved and signed into law, money could start flowing to households as soon as March.

Source: Ag Letter editors, Congress

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U.S. DEBT

U.S. debt is rising along with interest costs to service it. Key things to know:

• U.S. debt is now above $34 trillion.

• Debt is increasing no matter which political party is in control.

• Federal gov't spending was $164 bil. higher during the first two months of this fiscal year compared to the prior one, which means the deficit this year could top last year's $2 trillion.

• Debt as percentage of GDP is approaching the level reached at the end of World War II.

• Unemployment close to a postwar low when we should be running budget surpluses, but instead running a deficit close to 6% of GDP.

• Foreigners are reluctant to add to large U.S. gov't bond holdings.

• Rating agencies warn, absent a change in policy direction, they'll be forced to downgrade the country's credit rating.

• Large deficits are manageable when gov't can finance itself at very low interest rates, but interest rates have risen.

• Gov't must finance deficit and roll over its maturing debt at higher interest rates.

• Net interest costs soared to $659 bil. in fiscal year 2023, up $184 bil., or 39%, from the previous year and is nearly double from fiscal year 2020.

• Perspective: Cost of servicing debt at about 30 cents of every tax dollar and will soon outpace annual defense spending.

• Interest payments are the fastest growing gov't-budget spending item and could amount to around 3.25% of GDP by 2030.

• Impact: Interest payments expected to hit $1.4 tril. by FY 2033.

• U.S. will not default… Unlike other gov'ts, which finance themselves in foreign currency, the U.S. gov't finances itself in dollars. Means Fed can print the dollars to meet borrowing needs if foreign creditors go on a lending strike.

• Impacts: A recipe for a dollar crisis and another inflationary burst.

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PORK EXPORTS

In November, U.S. pork exports reached new records in key markets, driven by outstanding performances in Mexico, Central America and Colombia. These figures are based on data from USDA and compiled by the U.S. Meat Export Federation (USMEF).

Pork exports to Mexico, a leading market, reached a record in November, marking a 5% increase from the previous year. Export volume also surged by 14%, totaling 100,313 metric tons, making it the second-largest on record, with only October 2023 surpassing it.

Central America saw remarkable growth in pork imports in November, with significant increases in Honduras, Guatemala, and El Salvador. Shipments to the region surged by 35% compared to the previous year, reaching 16,565 metric tons, setting monthly records.

South Korea also experienced substantial growth in pork imports in November, up by 19% compared to the previous year, with shipments totaling 17,406 metric tons.

Oceania witnessed a notable rebound in U.S. pork purchases throughout 2023. This trend continued in November, with shipments nearly tripling compared to the previous year, reaching 6,414 metric tons, which is an impressive 186% increase.

Exports accounted for 30.1% of total pork production in November, with muscle cuts making up 26.2%. Both of these figures increased by approximately 1 percentage point compared to the previous year.

SCOTUS

The Supreme Court is considering a dispute that could have major implications for federal agencies and their ability to enact regulations related to consumer and environmental protections. Key issues revolve around the concept of Chevron deference, which is the practice of courts deferring to federal agencies' interpretations of laws when those laws have multiple possible meanings. The case questions whether courts should continue to give federal agencies wide latitude to interpret ambiguous laws. If the Court decides to limit Chevron deference, it could make it more challenging for presidential administrations to introduce regulations aimed at addressing pollution, climate change, or consumer protection without explicit authorization from Congress.

Justices Neil Gorsuch and Clarence Thomas have expressed doubts about Chevron deference in the past, and Justice Brett Kavanaugh is also viewed as a skeptic. The positions of newer justices, such as Amy Coney Barrett and Ketanji Brown Jackson, are less clear.

SHIPPING COSTS

Ongoing attacks by Iranian-backed Houthi rebels on Red Sea shipping routes are exerting increasing influence on the global economy and supply chains. Of note:

• Rerouting and increased costs: Some of the world's largest logistics companies have stopped using the Red Sea transit route. As a result, shipments are being rerouted, adding approximately two weeks to each leg of the journey and costing about $1 mil. in additional fuel expenses for round trips between Asia and Europe. This has disrupted the normal flow of global trade through the Suez Canal, which typically handles about 12% of global trade.

• Rising shipping prices: The cost of shipping a container from Asia to Northern Europe has surged by 173% since the attacks began, and prices from Asia to the Mediterranean have more than doubled. Additionally, the cost of insuring ships passing through the Red Sea has increased from 0.1% to 0.2% last month to about 0.5% of a ship's hull value.

• Steady oil prices: Despite a 40% drop in shipments of oil and refined products through the Suez Canal in December compared to October, oil prices have remained relatively stable. This is attributed to factors such as decreased demand for oil and high inventories of oil and gas. The price of Brent crude is approximately $79 per barrel, slightly lower than before the attacks began.

MARKETS

Other supply chain threats: The Red Sea attacks are not the only threat to global supply chains. The Panama Canal, which handles about 5% of global trade, has restricted the number of vessels due to severe drought conditions. Continuing disruptions in global trade could lead to higher shipping costs, potentially passed on to consumers, at a time when inflation has already started to ease.

Corn: USDA raised its corn production estimate 108 mil. bu. to a record 15.342 bil. bu., 116 mil. bu. more than traders expected. Its yield estimate increased 2.4 bu. to a record 177.3 bu. per acre. USDA cut harvested area by 583,000 acres to 86.513 mil. acres. Dec. 1 stocks totaled 12.2 bil. bu., up 13% from year-ago. Of the total, 7.83 bil. bu. (64.2%) were held onfarm. Implied use in the first quarter of 2023-24 was 4.53 bil. bu., up 7.6% from the same quarter last year.

Soybeans: USDA raised its soybean production estimate 36 mil. bu. to 4.165 bil. bu., which was 38 mil. bu. more than expected. USDA increased yield 0.7 bu. to 50.6 bu. per acre. Harvested area was cut 435,000 acres to 82.356 mil. acres. Dec. 1 stocks totaled 3 bil. bu., down 1% from year-ago. Of the total, 1.45 bil. bu. (48.3%) were held on-farm. Implied use in the first quarter of 2023-24 was 1.43 bil. bu., down 6% from the same quarter last year.

Wheat: The U.S. planted 34.425 mil. acres to winter wheat, down 2.274 mil. acres from last year. HRW acreage at 24.0 mil. acres fell nearly 1.7 mil., with the largest reductions in Kansas and Texas, the two largest producers. SRW acreage at 6.86 mil. acres declined 500,000 acres. White winter wheat plantings at 3.54 mil. acres dropped 104,000 acres. Dec. 1 stocks stood at 1.41 bil. bu., up 8% from year-ago. Of the total, 395 mil. bu. (28.0%) were held on-farm. Implied use in the second quarter of 2023-24 was 357 mil. bu., down 23% from the same quarter last year.

Rice: USDA's outlook for 2023-24 U.S. rice is for slightly higher supplies, unchanged domestic use, lower exports and higher ending stocks. Supplies were raised as higher imports more than offest lower production. USDA estimated all-rice production at 218.3 mil. cwt., down 1.4 mil. from the previous estimate. The all rice average yield is estimated at 7,649 lbs. per acre, down 58 lbs. from the prior estimate.

Cotton: USDA cut its crop estimate 342,000 bales, to a 12.434 mil. bales. The average yield jumped 80 lbs. to 845 lbs. per acre as USDA cut harvested area 956,000 acres to 7.065 mil. acres.

Dairy: Milk production for 2023 was lowered from last month by USDA, with lower milk cow inventories and lower expected milk per cow. The 2024 production forecast is lower due to a reduced average cow inventory for the year and slower growth in output per cow. USDA's Cattle report, which will be released Jan. 31, will provide an indication of producer intentions for retaining dairy heifers for addition to the breeding herd.

Cattle/Beef: For 2024, USDA's beef forecast was raised with higher expected first-half cattle slaughter, as well as higher dressed weights.

Hogs/Pork: First-half pork production was raised by USDA, reflecting pig crop data for the second half of 2023. Production in the second half reflects first-half 2024 farrowing intentions reported in the December Quarterly Hogs and Pigs report and expectations of somewhat slower-than-recent growth in the pigs per litter rate.

2024 ARC/PLC

Signup for 2024 Ag Risk Coverage (ARC) and Price Loss Coverage (PLC) is open through March 15, 2024. Producers may choose between ARC and PLC for the 2024 program year with a one-year extension of the 2018 Farm Bill.

This year's decision will include a change in some reference prices due to the "Effective Reference Price" calculation included in the 2018 Farm Bill. Corn, soybeans, and sorghum will have a higher reference price for the first time in 2024.

The table below shows both the effective reference prices and benchmark prices used for ARC for the 2024 program year. (*Source: Combest-Sell)*

Trigger details: PLC would trigger if the final 2024 marketing year avg (MYA) price falls below the effective reference price. ARC would trigger if the final county revenue falls below 86% of the benchmark county revenue. However, Supplemental Coverage Option (SCO) cannot be purchased for program acres where ARC is selected. Enhanced Coverage Option (ECO) and other add-on policies may be purchased regardless of the ARC/PLC election.

Note: Even if Congress were to approve a new farm bill, those provisions would first take effect for 2025 crops.

Commodity	**2024 Effective Reference**	**2024 ARC Benchmark Price**	**86% of ARC Benchmark (trigger price with normal yields)**
Wheat	$5.50	$6.21	$5.34
Barley	$4.95	$5.07	$4.36
Oats	$2.76	$3.38	$2.91
Peanuts	$0.2675	$0.2675	$0.2301
Corn	$4.01	$4.85	$4.17
Grain Sorghum	$4.06	$5.01	$4.31
Soybeans	$9.26	$11.12	$9.56
Dry Peas	$0.1100	$0.1267	$0.1090
Lentils	$0.1997	$0.2478	$0.2131
Canola	$0.2015	$0.2337	$0.2010
Large Chickpeas	$0.2261	$0.2717	$0.2337
Small Chickpeas	$0.2108	$0.2509	$0.2158
Sunflower Seed	$0.2015	$0.2308	$0.1985
Flaxseed	$11.28	$13.36	$11.49
Mustard Seed	$0.2317	$0.2880	$0.2477
Rapeseed	$0.2015	$0.2065	$0.1776
Safflower	$0.2015	$0.2243	$0.1929
Crambe	$0.2060	$0.2423	$0.2084
Sesame Seed	$0.2317	$0.3767	$0.3240
Seed Cotton	$0.3670	$0.3958	$0.3404
Rice, long grain	$0.1400	$0.1400	$0.1204
Rice, med/short grain	$0.1400	$0.1400	$0.1204

Best regards,

The Ag Letter Editors

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