FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 95, No. 3

Dear Client: Washington, Feb. 2, 2024

What farmers & ag firm officials are saying & asking... based on our conversations throughout the country.

2024 ISSUES

1. Commodity outlook: Corn and soybean producers are hearing bearish outlook presentations.

2. A lot of corn and soybeans are still unsold. Big piles of corn in some states (notably S.D.) are evidence of this.

3. Concern about what happens to 2017 Trump tax cuts that mostly expire at the end of 2025. Some say they would be impacted if the estate tax exemption were halved from the present level, among other impacts.

4. Growing concern about trade policy of the current Biden administration and what Trump says he will do relative to across-the-board tariffs to all exporting nations if he returns to the White House. Disgruntlement about the existing Biden administration trade policy focused on farmers saying it does not do much to increase market access for U.S. farm products. Of note: A bipartisan Ag Trade Caucus has been formed amid growing tensions over U.S. trade policy... *see page four*.

5. Another trade issue of concern is China: Farmers think that whoever wins the White House, both parties will ramp up sanctions/tariffs on China, leading to a new trade war. They are extremely concerned about the future if China “deals” with Taiwan in some type of takeover.

6. Crop insurance: Although some crop insurance agents seem to be pushing ECO and less so SCO as crop insurance add-on(s), farmers think the ratios to buy them are still too robust. But it appears ECO would benefit some Midwest farmers this year. This could have a farm bill impact in the future if premiums are decreased for these crop insurance options.

7. If Trump wins the White House, who will be his VP? There is hope it would be someone familiar with ag sector issues.

8. SAF: Corn producers are focused on whether corn-based ethanol will be an eligible feedstock for producing sustainable aviation fuel (SAF). A final decision on this by the Treasury Dept. is expected this March.

9. Interest rate outlook is asked by most farmers. They want to know when rates are coming down and how aggressively, but are planning on lower borrowing costs for 2025 operations.

10. Increased regulations are a growing concern both at the federal (EPA) and state level. Farmers are notably more concerned about this should Democrats keep control of the White House, faring more restrictions on the use of pesticides and other inputs... *see box on page 3*.

11. Digital dollar. Some ag sector interest in when the Fed will approve a digital dollar and the implications of this.

12. The growing U.S. debt brings questions of how it will be dealt with ahead and how that will impact farming operations and farm programs.

13. Farmers are pulling back on machinery purchases, having updated needs recently.

14. Regarding Nov. 5 elections, farmers and ranchers want to know who will win it, and what the implications to the ag sector are of those who control the White House, House and Senate.

NEW FARM BILL TIMELINE

No one expects a new farm bill to be completed early this year, but the hope continues for a bill by year’s end, despite most thinking this will be kicked into 2025.

The ongoing debate in Congress over federal spending levels is expected to extend the discussion on the new farm bill into the heart of the 2024 general election year, making compromise more challenging, according to Purdue associate professor Roman Keeney.

The farm bill debate may also be influenced by government funding discussions, as was the case with SNAP revisions in the 2023 debt limit agreement.

Without a resolution, there is a possibility that by October 2024, there may still be no replacement farm bill, similar to the situation in 2023.

The last farm bill to be enacted on time was the 2002 Farm Bill, with subsequent bills facing delays, including the 2018 Farm Billl signed by President Trump three months after the expiration of the 2014 Farm Bill.

Source: Ag Letter editors, Congress

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.

Subscription inquiries: 888-752-2047
Editorial information: Tel., 888-752-2047;
Email: agricultureletter@farmjournal.com.

FOOD PRICES

USDA tempers grocery price decline forecast for 2024. The Consumer Price Index (CPI) for all food is forecast to rise 1.3% in 2024, up slightly from 1.2% forecast in December, with food at home (grocery store) prices now seen falling 0.4% after USDA had trimmed the outlook in December to a decline of 0.6%. Food away from home (restaurant) prices are to be 4.7% higher than 2023, a slight trim from the December expectation for them to increase 4.9%

USDA's January update to its food price outlook would still mean all food and grocery price increases would be below the 20-year averages of 3% for all food and 2.7% for grocery prices. Restaurant prices, however, would still increase more than the 20-year average of 3.4%.

The levels seen by USDA for 2024 are still under those registered in 2023 of 5.8% for all food, 7.1% for restaurant prices, and 5% for grocery prices. All three categories were down from increases in 2022 that were the highest in more than 40 years with all food prices up 9.9%, restaurant prices rising 7.7%, and grocery prices a whopping 11.4%.

Prices in December 2023 were up 2.7% compared with December 2022, while restaurant prices were 5.2% higher and grocery prices were 1.3% higher.

HPAI again playing a role in food price outlook. Egg prices have long been one of the most volatile food price items at the grocery store, evidenced by recent history in particular. Prices were up a staggering 32.2% in 2022 as highly pathogenic avian influenza (HAPI) ravaged the U.S. egg-layer flock. In 2023, prices rose another 1.4%. The forecast now is for a decline of 4.6%, but that is a sharp increase from December when USDA forecast a fall of 12.1%. Retail egg prices increased 8.9% from November 2023 to December 2023 but were 23.8% below December 2022.

After stabilizing during 2023 after a peak in January 2023, prices are again starting to rise in the wake of HPAI being confirmed in the layer flock in November 2023. "The outbreak has affected about 4.5 million birds and 20 commercial flocks in the past 30 days ending January 24, 2024," USDA noted, "and price impacts of the outbreak will be monitored closely."

Declines still seen for several foods in 2024. USDA's current forecast for food prices to decline 0.4% at the grocery store marked a shift higher from the 0.6% decline forecast in December. But USDA still sees declines of 1.4% in pork prices in 2024, the 4.6% fall in eggs, dairy products are expected to be 0.7% lower versus a decline of 1.2% in their December outlook.

USDA now expects fresh fruit and vegetable prices to fall 0.2% versus the increase of 0.7% that was expected in December in part as fresh vegetable prices are expected to fall 0.9% compared with a 0.3% decline seen in December. However, processed fruits and vegetables are now expected to increase 1.1% versus the decline of 1.9% USDA saw in December.

Cereals and bakery products are expected to see price declines of 1.1% which marked a shift from an increase of 0.6% that was forecast in December.

Beef prices are now forecast to increase 5.8% in 2023, up from 4.8% in December, but still under the 7.8% rise USDA had forecast in November. That also translates into meats, poultry and fish prices now seen rising 2% after a 1.5% increase forecast in December.

Most grocery store prices are seen rising less than their 20-year averages, with prices for beef and veal, sugar and sweets, and nonalcoholic beverages expected to increase more than those historical averages. Fats and oil prices are forecast to rise 3.6%, even with their 20-year average.

INDONESIA

Indonesia is indicating its intention to import a significant quantity of cattle and beef due to an anticipated surge in demand that will surpass domestic production capacity. The country's agriculture ministry reports that beef demand is projected to reach 720,375 metric tons, while domestic production is expected to be only 422,649 metric tons. Australia is expected to be the primary source of cattle for these import plans, with potential beef imports also coming from Brazil, India and other suppliers.

SHIPPING COSTS

Shipping costs continue to escalate. A violent blockade in the Red Sea is causing disruptions to global shipments, raising concerns about potential inflation spikes. Approximately 21% of global container ships rely on the Suez Canal, which connects the Red Sea and the Mediterranean. The IMF has previously found that when shipping costs double... as they have in the past month... it can cause global consumer prices to rise by 0.7 percentage points in the coming year.

REGS

The Biden administration is taking steps to implement energy and environmental regulations throughout this year before the Nov. 5 elections. These regulations encompass a wide range of issues, such as imposing stricter emissions standards on fossil fuel-powered plants and establishing more rigorous national standards regarding "forever chemicals" in drinking water.

However, the administration faces a delicate balancing act, aiming to gain the support of environmental and conservation groups while not alienating voters in red states and industry stakeholders during a pivotal election year.

Congressional Republicans are planning to challenge certain Biden energy regulations they find objectionable. Sen. Cynthia Lummis (R-Wyo.), who leads the Senate Western Caucus, noted that Republicans will introduce disapproval resolutions under the Congressional Review Act (CRA) to potentially roll back the administration's actions. Lummis emphasized the importance of carefully reviewing these rules to assess their impact on states.

If Biden is re-elected, farmers fear more crop protection tools will be removed by EPA.

MARKETS

Corn: Attention continues on demand for U.S. corn on the global market. But competition from South America will be coming on line and providing some challenges. The acreage situation for 2024 will rise in focus with the USDA Outlook Forum in mid-February where USDA analysts will share their thoughts for the 2024-25 marketing year. Any changes from the budget-related figures released in December will be of note.

Soybeans: South American soybean supplies will be coming soon and that will curtail demand for U.S. soybeans if it hasn't already started to temper sales. Acreage in 2024 also looms as markets try to get a bead on whether the corn/soybean price ratios will tip the scales in favor of one crop versus the other. But crop rotations still remain a key in the farmer decision-making process.

Wheat: U.S. winter wheat prospects will be important as the crop comes out of dormancy in the spring with some initial concerns about winterkill already from the cold snap that hit the region recently. However, favorable spring weather can offset winterkill damage. U.S. wheat remains competitive at times on the global market, though that demand has not been consistent.

Rice: Demand remains important with restrictions on rice trade on the global front still creating interesting market conditions. U.S. supplies are most sought after in the Americas and Caribbean where transportation advantages are best. But demand from Asian countries that have seen rice crop prospects reduced could open the way for the U.S. to garner additional business at some point.

Cotton: Macroeconomic factors remain important for the cotton market, especially with slowing global growth raising concern about textile demand. China has remained as a solid buyer of U.S. supplies. US acreage… like with other spring-planted U.S. crops… will rise in focus, particularly after the cotton industry meets in the near future and growers offer up their thoughts on 2024 plantings.

Dairy: Milk production stalled at the end of 2023 but the overall production marks at the end of the year appeared to be little changed as the efficiency in the dairy herd continued to improve. Margins improved late in 2023 but have taken a hit to open 2024. Weaker milk production will likely continue to be partly offset by more milk per cow.

Cattle/Beef: Steer weights are down, which is likely from the wintry weather that swept through the Midwest and stressed animals. Now the prospect for rains in cattle country could introduce another challenge to cattle weights… mud. December beef supplies rose notably from November, but declined 10.8% from year ago and were 5.4% below the five-year average.

Hogs/Pork: Cash prices appear likely to head higher as we move through the first half of the year. February hog slaughter is expected to be around 11 million head, below January's total but about 10% above year-ago levels. On average, harvest levels are expected to trend lower through June but will still be above year-ago levels. Risk is that supplies will end up even larger.

Poultry: Highly pathogenic avian influenza (HPAI) remains a key in the U.S. poultry situation. Already, egg prices appear poised to move higher with a portion of the layer flock again affected. Similarly, turkey infections have also created demand headwinds from foreign buyers due to HPAI-related trade restrictions.

INDIA WHEAT

Cold snap helps India's wheat crop, but warm weather forecasts pose risk. An extended cold spell helped India's wheat crop during its vegetative growth, but a recent rise in temperatures could impact the crop during the crucial grain formation stage. "Because of cold weather we're expecting a little better yield than normal 3.5 tons per hectare, and that's why we'll easily achieve the production of the target of 114 million metric tons," Gyanendra Singh, the director of the state-run Directorate of Wheat Research, told *Reuters*.

While India's fertile plains have seen a chilly winter, anemic snowfall in mountainous regions has raised concerns of a sudden, abrupt rise in temperatures. Both minimum and maximum temperatures in northern and north-western states have started to rise, an official of the state-run India Meteorological Department said. In February, maximum temperatures could be 5 degrees Celsius above normal in Punjab, Haryana and Rajasthan states, part of India's grain belt, he said. Weather during the next eight weeks will determine the crop size.

TRADE POLICY

Bipartisan Ag Trade Caucus formed amid growing tensions over U.S. trade policy. A bipartisan group of lawmakers is establishing an agricultural trade caucus to advocate for open markets, especially as concerns regarding the future of trade policy grow in both political parties. This move is in response to a recent survey conducted by data firm Morning Consult and advocacy group Farmers for Free Trade, which found that around 30% of rural voters believe Congress should have a greater role in shaping U.S. trade policy. This sentiment is shared by 36% of 2020 Biden voters and 25% of 2020 Trump voters. Only 12% of respondents think Congress should have a smaller role, while the majority, 60%, believes Congress's role in trade policy should remain roughly the same.

Some members of the House see an opportunity for congressional action on agricultural trade, particularly in the absence of new free trade agreements from the Biden administration. For instance, Rep. Adrian Smith (R-Neb.) has advocated for the renewal of trade programs that can temporarily reduce certain tariffs, stating that "with the administration asleep at the wheel on trade, Congress must step up."

The Ag Trade Caucus will include Reps. Jim Costa (D-Calif.), Dusty Johnson (R-S.D.), and Jimmy Panetta (D-Calif.), in addition to Rep. Adrian Smith, and the biparisan group was officially announced this week.

President Joe Biden has faced criticism for not pursuing new free trade agreements. Farmers for Free Trade is pushing for more open markets for U.S. agricultural products, with 61% of the surveyed rural voters expressing the view that Washington should be doing more to support U.S. farm exports. Biden, however, has emphasized a focus on "worker-centered trade" to ensure the benefits of trade without offshoring American jobs. USDA has highlighted its efforts to open new agricultural export markets through trade missions to countries like Kenya.

There is now a growing isolationist faction within the Republican party and skepticism on the left regarding the impact of globalization on American workers.

FY 2024 SPENDING

Negotiators reached a deal on top-line allocations for the 12 annual gov't-funding bills, an agreement that allows lawmakers to start negotiating the details of a spending package for fiscal year (FY) 2024. Sen. Patty Murray (D-Wash.) and Rep. Kay Granger (R-Texas), the Appropriations Committees chairs, had been negotiating the funding amounts since a Jan. 7 agreement on high-level defense and non-defense levels.

Congress faces funding deadlines on March 1 and March 8. Four bills, comprising about 20% of discretionary funding ... including USDA... face a March 1 deadline. The other eight bills, comprising about 80% of funds, have a March 8 deadline.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

Feb. 2, 2024