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The Agriculture Letter

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Dear Client: Washington, March 15, 2024

Carbon intensity is being discussed in corporate boardrooms, Capitol Hill and corn and soybean fields, notes Lauren Lurkins, a strategist from Illinois.

CARBON

Conversations in corporate boardrooms are taking place regarding corporate climate risk disclosures and emissions reporting, particularly focusing on scope one, two and three emissions.

Scope one emissions refer to direct emissions from company operations, scope two emissions relate to indirect emissions from purchased energy and scope three emissions encompass all other indirect emissions, including those from the supply chain.

A Securities and Exchange Commission (SEC) rule was just released on climate change disclosures for publicly traded companies. The SEC's decision to exclude scope three emissions from reporting requirements is seen as a positive development for agriculture, as it alleviates concerns among farmer groups, such as the American Farm Bureau, regarding the potential burden of reporting these emissions.

California has mandatory emissions reporting for both publicly traded and private companies, setting an example for other regions, but concerning others.

Companies are increasingly recognizing the importance of sustainability and environmental stewardship, driven by consumer demands, shareholder interests, and regulatory pressures. Many are setting ambitious goals for emissions reduction, although such commitments come with risks, as evidenced by recent lawsuits challenging the credibility of companies' claims regarding environmental initiatives.

Carbon markets and offsets and insets are potential mechanisms for companies to mitigate their emissions. While carbon offsetting presents opportunities for emission reduction, challenges remain, particularly for agricultural stakeholders who face barriers to participation in carbon markets due to stringent requirements and limited returns.

MARQUIS

Marquis was founded in 1975. Its industrial complex is in Hennepin, Illinois. Today, it ...

- Provides 449 high-paying jobs.
- Processes 130 mil. bu. of corn annually
- Provides a marketplace for over 1,000 corn growers and 25 local grain elevators within 65 miles.

Marquis Grain purchases 50% of the corn grown in a 65 mile radius of its facility. Annual produciton:

395 mil. gal. of ethanol, 1 mil. tons of animal feed, 76,000 tons of corn oil and 1 mil. tons of Biogenic CO2.

The Marquis new soy crush facility once completed will be one of the largest single-site crush facilitates in North America.

- 6,000 tons/day capacity
- Will be built 18 months post EPA permit is received.

Annual Production
- 80,300,000 bu. crush capacity
- 888,760,000 lbs. of oil
- 1,810,400 short tons bean meal
- 120,450 short tons hulls per year

Source: Marquis

The U.S. gov't is providing billions of dollars in funding. Example: USDA climate-smart commodities have provided around $3 bil. in 70 projects, and $325 mil. in 71 additional projects. The Inflation Reduction Act included $19.5 bil. in NRCS conservation funding.

The ag sector is focusing on Sustainable Aviation Fuel (SAF). It's anxiously awaiting the Treasury Dept. to officially define which feedstocks are eligible for the tax incentives, to which level and what requirements are necessary. USDA Secretary Tom Vilsack says details should be announced in "weeks, not months."

U.S. airlines consumed 16.7 bil. gallons of fuel in 2022, but SAF is currently less than 1% of the jet fuel market. This potential growth is what has the ag sector so excited for the future. One impact: Soybeans will be crushed more for the oil rather than meal... a mega change.

SAF is also why there has been a dramatic increase in new and expanded crushing plants throughout the country. We provide one such example in the box above.

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BOYCOTT <u>Western brands face boycott in Indonesia and Malaysia over Israel-Hamas conflict</u>. Popular Western brands from Unilever and McDonald's to Starbucks and Danone are being hit by a consumer boycott in Muslim-majority Indonesia and Malaysia, part of the fallout over the Israel-Hamas conflict.

<u>Unilever, whose well-known products include Dove soap and Ben & Jerry's ice cream</u>, and global fast food chain McDonald's are among the companies saying their businesses are suffering. "In Indonesia, we saw [a] double-digit sales decline in the fourth quarter, as sales of several multinational companies were impacted by geopolitically focused, consumer-facing campaigns," Unilever's Chief Financial Officer Fernando Fernandez said in an earnings call on Feb. 8.

<u>Multinationals, for their part, have attempted to dispel the perception that they favor one side</u> or the other in the conflict.

"<u>We are sad and concerned" over the conflict in the Middle East, Unilever Indonesia said</u>, stressing its contribution to "serving consumers in Indonesia for 90 years. Our products are made, distributed and sold by the people of Indonesia."

<u>In Malaysia, Berjaya Food, coffee chain Starbucks' main franchise owner in the country</u>, reported a 38.2% drop in revenue in its second quarter ended in December. The revenue drop was primarily "attributed to an ongoing boycott" linked to the fighting, it said. "We condemn violence, the loss of innocent life and all hate and weaponized speech," Starbucks Malaysia said. "Despite false statements spread through social media, we have no political agenda. We do not use our profits to fund any government or military operations anywhere... and never have."

<u>Small and medium size businesses have also felt the impact of consumer anger</u>.

WOTUS <u>NPPC's Formica raises concerns over EPA's WOTUS rule for farmers</u>. During a recent public hearing on the implementation of the Waters of the United States (WOTUS) rule by the Army Corps of Engineers and the U.S. Environmental Protection Agency (EPA), NPPC chief legal strategist Michael Formica expressed ongoing worries about the rule's impact on producers.

<u>Background</u>. Efforts by some previous administrations were made to expand the rule's authority, potentially subjecting farmers to permits for routine activities near water features. However, a 2023 Supreme Court ruling limited this authority to geographical features like streams and adjacent wetlands.

<u>Despite this, Formica highlights ongoing issues with EPA's rule and its implementation</u>. He emphasizes the lack of clarity and consistency, making it impractical for farmers to seek guidance on the legality of everyday activities. Additionally, he raises concerns about EPA's use of internal guidance not shared with the public, calling it "outrageous."

<u>Farmers say EPA continues to assert jurisdiction over streams far from navigable waters</u>, even those not covered under previous rules, prompting ongoing uncertainty and frustration.

AG TRADE <u>U.S. agricultural exports dip in January, trade deficit surges</u>. In January, U.S. agricultural exports fell by 3.9% to $14.90 bil., while imports rose 4.4% to $17.44 bil., leading to a monthly trade deficit of $2.54 bil., a significant increase from December's $323 mil. gap.

<u>So far in the fiscal year (FY) 2024, ag exports total $63.14 bil. against $66 bil. in imports</u>, resulting in a $2.85 bil. deficit. To meet the USDA's forecast, exports must average $13.42 bil. and imports $16.88 billion over the next eight months.

<u>Comparing January 2024 to January 2023, ag exports dropped by 12.5%</u>, while imports rose by 1.9%. From February to September 2023, exports averaged $13.70 bil., and imports averaged $16.16 billion.

<u>USDA attributes these trends to the strengthening U.S. economy and a robust U.S. dollar</u>, factors expected to shape agricultural trade for FY 2024.

AG EQUIP. <u>Lower farmer income will negatively impact ag equipment sales</u>. Over two-thirds of ag equipment dealers predict either flat or decreasing revenue in 2024. While sales of new equipment may suffer, demand for used tractors and combines is expected to remain relatively stable. The 25.5% projected decline in farm income is primarily attributed to lower cash receipts from both crop and livestock sales.

CREDIT CARDS

Average American household debt surges amid economic challenges. Household debt in the U.S. reached $17.5 tril. by the end of last year, marking a significant increase of almost $3.5 tril. since 2019, before the onset of the Covid-19 pandemic. A recent report by the Federal Reserve Bank of New York revealed a resurgence in home equity lines of credit over the past two years, following a decade of declines. Credit card debt has surpassed $1 tril., with credit limits rising for the 11th consecutive quarter.

Consumers are grappling with the highest inflation since the 1980s, and have increasingly turned to debt, particularly through credit cards, says LendingClub CEO Scott Sanborn. The interest rates on these cards have reached record highs, with nearly half of the largest issuers offering cards with annual percentage rates (APRs) exceeding 30%.

Despite half of Americans being unaware of the APRs on their cards, the Consumer Financial Protection Bureau announced measures to reduce credit card late fees, estimated to save consumers $10 bil. annually. Fed data show rising delinquencies, though not yet at alarming levels.

This comes amid scrutiny of the proposed Capital One-Discover merger, with Fed Chair Jerome Powell confirming that the central bank has yet to receive an application for the merger.

MARKETS

Corn: USDA left corn ending stocks at 2.172 bil. bu., unchanged from last month. That would be the largest carryover since 2018-19. USDA made no changes to any of the supply or usage forecasts. USDA 2023-24 price: $4.75, down a nickel from February.

Soybeans: USDA made no changes to either the supply or demand side of the old-crop soybean balance sheet, maintaining the ending stocks forecast at 315 mil. bu., which would be the highest since 2019-20. USDA 2023-24 price: $12.65, unchanged from February. Of note: USDA lowered its Brazilian crop forecast 1 MMT to 155 MMT, though that’s well above most private crop forecasts, which average around 147 MMT based on a wide range of estimates. It left the Argentine soybean crop projection at 50 MMT.

Wheat: USDA raised old-crop wheat ending stocks 15 mil. bu. from last month to 673 mil. bushels. The only change was a 15-mil.-bu. cut to exports, which are now projected at 710 mil. bushels. USDA 2023-24 price: $7.15, down a nickel from last month.

Rice: USDA’s all rice season-average farm price was raised by $0.40 per cwt to $18.80 on increases for all classes of rice based on NASS prices reported to date and expectations for cash and futures prices for the remainder of 2023-24. The long-grain price was raised $0.10 per cwt to $16.10, the Other States medium- and short-grain price was raised $0.50 per cwt to $18.00, and the California medium- and short-grain price was raised $2.00 per cwt to $32.00.

Cotton: USDA cut old-crop cotton ending stocks 300,000 bales from last month to 2.5 mil. bales, which would be the lowest since 2013-14. On the supply side, USDA lowered the 2023 crop estimate 330,000 bales, which pulled down total supply by that amount. On the demand side of the balance sheet, the only change was a 40,000-bale increase in unaccounted use to -200,000 bales. USDA 2023-24 price: 77¢, unchanged from last month.

Dairy: For 2024, USDA lowered milk production due to a smaller dairy cow inventory and slower growth in output per cow. The butter price forecast was raised on recent data and strong demand. The cheese price was also raised on recent price strength. Nonfat dry milk (NDM) and whey price forecasts were both lowered based on recent prices. Class III prices are projected higher based on higher cheese prices, while Class IV prices are lower, as the lower NDM price more than offsets the higher butter price. The all milk price is projected higher at $21.25 per cwt.

Cattle/Beef: For 2024, USDA raised cattle prices for all quarters based on recent prices and firm demand for fed cattle. The beef production forecast was raised as lower expected slaughter in the first quarter was more than offset by higher slaughter for outlying quarters.

Hogs/Pork: Hog prices were raised by USDA for the second and third quarters, based on current demand strength. Pork exports were raised on continued strength in shipments to several key markets. USDA will release the Quarterly Hogs and Pigs Report on March 28, providing a further indication of hog supplies for slaughter in the second half of the year.

Poultry: Broiler production was raised on placement and slaughter data for the first quarter and expectations that lower feed costs will support higher production later in the year. Turkey production was lowered for the first half of the year. Egg production was lowered for the first quarter.

MIDWEST AG

Midwest Council on Agriculture secures funding for new agricultural policy center. The Midwest Council on Agriculture has secured $2 mil. from the fiscal year 2024 Agriculture Appropriations bill to establish a Midwest Agricultural and Food Policy Center. This initiative aims to fill the void in food and agriculture policy information in the Midwest, where despite its dense agriculture, there has been a lack of coordinated efforts in the policy arena, according to its proponents.

Former U.S. House Ag Committee Chairman Collin Peterson (D-Minn.) spearheaded this idea to leverage the agricultural power of the Midwest, with support from Sen. John Hoeven (R-N.D.). The center will complement the work of existing institutions like the Texas A&M Agricultural and Food Policy Center (AFPC) and the Food and Agricultural Policy Research Institute at the University of Missouri (FAPRI).

Based at N.D. State University, the center will collaborate with Land-Grant Universities across the Midwest to research and address key policy areas such as crop insurance, dairy, livestock and biofuels. The Land-Grant Universities in Iowa, Illinois, Indiana, Kansas, Michigan, Missouri, Minnesota, Nebraska, Ohio, South Dakota and Wisconsin will be key partners in the research and policy areas where they have the most expertise.

BRAZIL AG

Financial Times took a look at the biggest growth sector in Brazil: agriculture. The article explores the rapid transformation and economic boom experienced by Brazil's central-west region, particularly in towns like Boa Esperança do Norte, fueled by the agribusiness sector. This boom is characterized by significant growth in agriculture, with soybean production being a major driver, buoyed by global demand, especially from China. The region's economy has seen remarkable expansion, leading to newfound wealthy, evident in rising GDP and conspicuous consumption.

However, the article also highlights the looming threat posed by climate change, as evidenced by extreme weather events impacting agricultural productivity. Last year's record-breaking heatwave and drought significantly affected crop yields, signaling potential challenges ahead for Brazil's "agro" boom. Despite assurances from some locals attributing these issues to cyclical weather patterns like El Niño, there's a growing recognition among experts and larger producers of the need to adapt to a changing climate. Investments in technologies like genetically modified seeds and soil management techniques are being considered to mitigate these risks.

Moreover, concerns linger regarding increased competition from other regions and countries, as well as shifting patterns in global demand, particularly from China. While optimism remains high among locals and officials, there's acknowledgment of uncertainties and the need for resilience in the face of evolving market dynamics and environmental challenges.

EUROPE

European farmers' unconventional protests threaten EU policies. Farmers across Europe have been protesting in unconventional ways, such as showering authorities with liquid manure and eggs outside the European Union headquarters in Brussels. This surge of agrarian protests poses a threat to key aspects of EU environmental and foreign policies and could potentially bolster far-right parties in the upcoming European Parliament elections, according to reports.

The EU's Green Deal, pushed by European Commission President Ursula von der Leyen, aimed at revolutionizing farming practices to address pollution and climate change. However, challenges such as Russia's natural gas cutoff, soaring energy and fertilizer prices, and high-interest rates have strained farmers' financial resources, prompting them to push back against stringent environmental regulations.

Von der Leyen, eyeing a second term, has made concessions in response to farmers' grievances, proposing to freeze pesticide reduction plans and offering exemptions to fallow land requirements. This retreat from ambitious environmental goals has drawn criticism from environmental advocates. Farmers' concerns also extend to cheap imports.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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