

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

• Vol. 91, No. 22

Dear Client:

Washington, Oct. 23, 2020

Nov. 3 elections may bring major changes... Especially if Dems win a trifecta... White House and both chambers of Congress...

**ELECTIONS** Experts predict a win for Joe Biden, the Democratic presidential candidate.

But... the same experts were wrong in 2016 when they predicted Democrat Hillary Clinton would win big.

Over 32 mil. voters have already cast mail ballots, so any close races could take a while to sort out.

Watch Florida. Results should be known around 9 p.m. CT. President Donald Trump can't be re-elected without winning Florida, but Biden can.

Also watch Ohio, which is close. No Republican has won the White House without winning Ohio.

Trump can't lose any rural state he won in 2016. Iowa is very close again.

Arizona, with 11 electoral votes, is another big state that experts say may go to Biden; Trump won it in 2016 by just over 91,000 votes.

Trump squeezed out victories in Mich., Pa. and Wis. in 2016... and those states are close again. Some say if the White House race is down to the wire, Pa. will likely be the deciding state.

Trump has a Plan B to get the 270 electoral votes needed. He wants Minn. this time, having lost it in 2016 by fewer than 45,000 votes. The state's 10 electoral votes match those for Wisconsin.

Most analysts predict Democrats will retain control of the House, with some predicting gains for the party of up to 10 seats.

Republicans need a net gain of 17 seats to regain control of the House, not impossible but improbable based on current polling.

House Ag Chairman Collin Peterson (D-Minn.) is in the race of his career. *Cook Political Report* House Editor David Wasserman expects Peterson to be defeated in a very close election against well-known and adequately financed GOP challenger Michelle Fischbach. Wasserman calls Peterson "the most vulnerable Democrat in the House" who has "escaped for many years in a district that's become increasingly conservative in northwest Minnesota. And, he didn't have a serious challenger in 2016 or 2018." This time, Wasserman notes, "Republicans finally got their act together and got behind a Republican former lieutenant governor and state senator. That race is a dead heat right now."

Some polls show Peterson ahead while others show him behind by a few points. "That's not a place where a 30-year incumbent ought to be if they are hoping to win another term," Wasserman says. "So, I would be mildly surprised if Collin Peterson ends up winning another term in Congress."

## Why Polls Could be Wrong

**Oversampling:** Polls that show Biden with huge leads oversample Democrats by 6 to 10 points, and a few still sample registered vs. likely voters.

**New voter registration:** New voter numbers are tilted heavily toward Republicans, in some cases by 2 to 1 or more.

**Ground game:** Trump campaign knocking on a million doors a week vs. the tempered Democrat ground game.

**Ticket-splitting:** While those choosing different party candidates have lessened in recent years, that may not be the case this election because many want a check and balance on any party.

Sources: Election analysts

**SENATE**

Control of the Senate may come down to who wins the White House for several reasons... 1. A presidential winner could have coattails in some close Senate races, based on history. 2. If there is a 50-50 Senate vote, remember the vice president would be the one to break tie votes.

What Dems need for Senate control: Democrats need a *net* gain of four seats to get control of the Senate if Trump wins the White House... three seats if Biden wins, since the VP breaks tie votes.

Election-year gurus expect at least a 50-50 Senate, which again raises the importance of the White House victor. But others anticipate a 51-49 GOP win for the Senate.

Democrats are widely expected to lose the Ala. seat. Democratic incumbent Senator Doug Jones, who beat Roy Moore in 2017, is fighting to keep that seat. He's going against former Auburn University football coach Tommy Tuberville.

Likely Dem pickups of GOP seats include Ariz., Colo. and Maine.

Toss-up Senate races include GOP seats in Iowa, N.C. and South Carolina.

Democrats would need at least 51 seats to nix the 60-vote filibuster rule... because Sen. Joe Manchin (D) says he would vote against getting rid of the rule.

**ELECTION IMPACTS**

Election impacts for ag sector: These are a few of the important issues ahead...

- Who controls Congress. If Republicans retain control of the Senate and Democrats win the White House and keep the House, not much would change except via executive orders and regulations... though that approach can certainly have big impacts.

- Substantial changes if Dems win it all. Their three top issues for the first two years are climate change, infrastructure and health care. Farmers and their lawmakers would push for inclusion in any carbon credit program, seeing that as the next gov't revenue stream.

- Taxes. Biden wants to boost individual taxes for those with incomes over \$400,000, but cut them for those with lower incomes. Biden also wants a big bump for capital gains taxes and taxes for corporations. Trump wants to make his prior tax cuts permanent and add to the reductions.

- Estate taxes. No change is likely from Trump, but Biden supports raising estate taxes and changing the taxation of capital assets upon death.

- Farm policy. Dems usually favor small- to medium-size producers and will likely try to reduce payment caps. They would push the Conservation Stewardship Program. A Trump win would mostly be status quo on farm policy. Crop insurance has wide bipartisan support but could face cuts ahead with the deficit and debt bulging.

A key issue in the next farm bill is how much the ag sector will get to spend since the nearly \$50 billion in trade and Covid relief payouts are not part of the farm bill budget baseline.

- Who will lead the ag panels? If the GOP keeps Senate control, John Boozman (R-Ark.) will head the panel after Pat Roberts' (R-Kan.) retirement. If Dems win, Debbie Stabenow (D-Mich.) would return. In the House, if Peterson loses his race, possibilities include David Scott (Ga.), Jim Costa (Calif.) and Marcia Fudge (Ohio). If the GOP wins the House, possibilities include Glenn Thompson (Pa.), Mike Crawford (Ark.) and Austin Scott (Ga.).

- Trade policy. Biden would not focus on trade policy initially. He would be aggressive on China but would seek support from allies. Biden would cater to the World Trade Organization. Trump would likely step up action on China to force changes. Biden would favor multilateral trade agreements, including trying to rejoin the Comprehensive and Progressive Trans-Pacific Partnership, whereas Trump would continue to favor bilaterals.

- RFS/biofuels. If Biden wins, watch who is EPA administrator and perhaps "climate czar." If Trump wins, the issue of Renewable Fuel Standard waivers could return. RFS will be a congressional focus as authorization for the program ends in 2022.

- Regulations. Democrats favor more regulations, especially in the food sector; the GOP likes fewer regs. Key will be if a cost-benefit analysis is used.

- Meat sector. No matter who wins, more focus is coming regarding meat packers and the structure of the industry. Some lawmakers want to take on antitrust issues.

**BRAZIL**

Prospects for U.S. corn, soybean exports to Brazil are limited, says U.S. ag attaché. Brazil's decision to waive the import tariffs on corn through March 31 and for soybeans until January from outside the Mercosur countries has fostered hope for additional demand for those U.S. commodities.

But there are still "several hurdles" for such imports to unfold, said a U.S. ag attaché in Brazil in a recent report.

Price is one issue. "U.S. soybeans may remain too expensive to make sense for Brazilian importers given the U.S. FOB price and ocean freight costs," despite a \$20 to \$25 discount to Brazilian prices, the report noted. Conab recently said the U.S. is the only non-Mercosur country with the capacity to export soybeans to Brazil at competitive prices.

GMOs another issue. There are some nine GMO corn and soybean varieties approved in the U.S. that have not been approved in Brazil. For importers to bring those in, the attaché said they would have to submit a special approval request to the National Technical Commission on Biosecurity (CTNBio) and there are only two more scheduled meetings of that body the rest of 2020.

Port issues. The attaché also pointed out that Brazilian ports are geared for exports, "and reverse engineering the setup is time- and resource-intensive."

**MARKETS**

Corn: With demand continuing to build from China and other countries, futures have managed to rally through what is typically harvest pressure. And Chinese demand prospects remain strong as the country is dealing with near-record domestic prices.

Soybeans: Harvest is moving into the final stages across the Corn Belt at 75% complete as of Oct. 18. Funds have been aggressive buyers of the oilseed, with the dramatic move higher for soy meal adding support. Strong demand news is sharing the spotlight with dry South American weather that has slowed planting. But rains are expected to pick up soon.

Wheat: It would appear wheat users have been caught short and are now scrambling to secure supplies as prices soar. Dryness in the U.S. Plains HRW wheat areas and in Russia have sparked concerns on the global market. While Russia put seed in the ground, the crop needs moisture to germinate and get established ahead of winter... which is quickly approaching. U.S. supplies have not yet been big winners in recent global tender activity.

Rice: Harvest of this year's crop is all but done at 91% complete. Like with other commodities, that puts attention on demand. Of note, USDA data for the week ended Oct. 8 showed that the initial 20 MT purchase of U.S. rice by China has now been shipped.

Cotton: U.S. harvest continues to move ahead, on pace with the five-year average. But Texas is ahead of its average pace of bringing this year's crop in. China remains a solid demand source for cotton... including purchases for the 2021-2022 marketing year.

Dairy: Returns are improving for the industry that got a cash infusion via Coronavirus Food Assistance Program efforts. That and other trade aid appears to have tempered enrollment in the Dairy Margin Coverage program in 2020. USDA also reported an uptick in total fluid milk sales for June.

Poultry: Wing prices have hit new records, which is somewhat surprising considering sporting events are still not being held in front of large crowds. New consumer consumption patterns are emerging amid the pandemic... wings may be an item they want year-round.

Hogs/pork: Outstanding sales of U.S. pork to China are 35% above year ago and expectations are rising that those sales will be shipped. China's appetite for pork remains strong, but its recovering hog industry and changing consumer habits should be watched.

Cattle/beef: Beef production continues to outpace year-ago levels as live weights remain hefty. Weighted average fed cattle carcass weights are up nearly 25 pounds from year ago, keeping supplies in the pipeline elevated.

Transportation: Harvest is winding down and demand is strong. Grain car loadings in early October were up more than 30% versus year ago. That continues to trim the lag in activity seen thus far in 2020 vs. 2019 to just 1.5%.

WHIP+

USDA is tardy on WHIP+ details, implementation. While USDA is getting kudos for pumping out billions of dollars already for the CFAP 2 program, that is certainly not the case for another program... Wildfire and Hurricane Indemnity Program-Plus (WHIP+). Implementation glitches and complex program details, some of which keep changing, are just part of that program's woes.

Also, USDA still has not announced how quality issues will be dealt with under the program. USDA promises action "soon" on that front, but from what we have picked up, impacted producers and farm-state lawmakers will not be happy with the eventual release.

CATTLE PRICING

Cattle group proposes more market price transparency. To cope with the dwindling cash market, the National Cattlemen's Beef Association (NBA) is circulating a plan for meatpackers to voluntarily buy cattle on the spot market to assure fair and open prices. Some say the group is trying to ward off alternative bills in Congress to require packers to buy as many as half of their slaughter cattle for cash. NCBA said it hoped the voluntary framework would go into operation at the start of 2021.

How the 75% plan by the NCBA got its name: Packers would be obliged to buy at least 75% of the "weekly negotiated trade volume that current academic literature indicates is necessary for 'robust' price discovery." They would have to do so for at least 75% of the weeks in a calendar quarter, with each of the four major packers satisfying at least 75% of their individual targets for cash purchases.

The plan would require packers to buy routinely a specified number of cattle through negotiated trade; it would include the cash market and purchases at an agreed-upon base price, from which premiums are added or discounts are subtracted. The "weekly trade obligation" would range from 9,750 to 27,000 head in four cattle-producing regions, with a U.S. total of 64,500 head. By comparison, USDA estimated 654,000 head of fed cattle were slaughtered nationwide last week.

Around three of every four head of slaughter cattle are sold under contracts or via price formulas that reward producers who meet criteria set by packers. Four companies account for 80% of U.S. cattle slaughter. Sen. Chuck Grassley (R-Iowa) say too few cattle are sold on the open market for independent producers to be sure they are getting a fair price for their animals. Spot prices in some instances help set formula prices.

If there are repeated, widespread failures in two out of every four quarters, the task force that wrote the plan will recommend NCBA pursue a legislative or regulatory solution to compel robust price discovery.

Grassley expects his minimum-purchase bill would be "a major issue" in Congress in 2021. The bill, with six other sponsors, would require packers to buy at least 50% of their weekly volume of slaughter cattle on the open market.

Sen. Deb Fischer (R-Neb.) filed a bill in late September to set by region a minimum number of cattle for packers to buy on the cash market and to require packers to report daily the number of cattle that each has scheduled for slaughter for the next 14 days.

Covid-19

CDC report reveals thousands of undisclosed Covid-19 cases in food workplaces. The Centers for Disease Control and Prevention released an updated report on the spread of Covid-19 among food manufacturing and agricultural workers, revealing thousands of previously unreported cases and reiterating the disproportionate impact that the virus has had on non-caucasian people. The report tallied workplace outbreaks, cases and deaths by sector in 33 states between March 1 and May 31. Researchers found that 83% of Covid-19 cases in these sectors were contracted by workers of ethnic and racial minorities, despite comprising just 47% of the sectors' workforce.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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