Current ag trends & what to expect for the rest of 2021

DTN experts highlight key topics to watch

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Just a year ago, the world was wrestling with a deadly new virus and speculating about the potential economic fallout. At the same time, U.S. farmers, for the most part, went about the business of spring planting as they would any other year. Supply chain issues, processing plant slowdowns, commodity market dips, and consumer demand shifts were yet to bring consequences to those making their livelihoods in rural America.

In September 2020, Fitch Solutions, a leading provider of data, research, and analytics, published its report: The New Normal: The Commodities Sector Post COVID-19. It examined three commodity categories — oil and gas, mining and metals, and the agribusiness sector — with an eye to how each might perform under the year's challenges and the potential long-term effects that might set in motion going forward. The authors acknowledged serious business impacts from COVID-19 but felt corporate strategy shifts in some industries were already in motion; COVID-19 would simply accelerate megatrends already in play.

The pandemic put food security and supply chain vulnerabilities in the spotlight while at the same time whetting the appetite for increased "protectionism" and local food production by nations previously content to rely on trade agreements to import commodities, according to Fitch. With the best intentions to better plan for the next global crisis, however, these shifts are not quickly or easily implemented. Conversations with our DTN experts bring forward issues, trends, and topics they see as essential for U.S. farmers to keep on top of through 2021 and into 2022.

Policy watch: carbon capture tops the list

Efforts to move away from a high-carbon economy were already in front of global policymakers before COVID-19, but the Fitch report expected many governments to tie post-pandemic stimulus plans even closer to climate change mitigation incentives. Chris Clayton, DTN ag policy editor, believes the topic is here to stay. Carbon programs (to sequester and count) will become critical to adopt as trade partners and global markets will reward those that do — and leave behind those that don't.

In February 2021, the European Commission announced a new climate change adaptation strategy, which called out support for market-based carbon crediting programs among the long-term sustainability solutions. Other key trade markets are likely to follow, including China. Major oil companies have had carbon capture technology on their radar screen for some time now, but investment grows. In March 2021, ExxonMobil announced plans to invest $3 billion over the next five years as it expects there to be a $2 trillion market for carbon capture by 2050. Fortunately, farmers won't need that kind of investment, but they will need to stay on top of this trend as carbon capture will start at the farmgate.

ExxonMobil expects a $2 trillion market for carbon capture by 2050.

With a new administration in the White House and a still-divided U.S. Congress, there will be a lot to keep track of in terms of policy shifts and legislative action. The Fitch report speculated a post-COVID global environment of increased protectionism and a desire to diversify international suppliers (even more than had been happening). It is uncertain what this means for the U.S. farmer and global commodity markets; U.S. legislators have been more focused on domestic matters.

In March, the U.S. House passed the Farm Workforce Modernization Act, which, among other things, updates the temporary agricultural worker program. It's not the magic solution for labor shortages across agribusiness, but it could help mitigate challenges with some segments. However, the bill still needs Senate approval, and immigration policy remains a political ping-pong.

Infrastructure is now a major focus for the Biden administration with the president's $2.3 trillion infrastructure package. The proposal calls for increased investments in roads, bridges, ports, inland waterways, the electrical grid, and rural broadband.

And believe it or not, legislators will start to work on the 2023 Farm Bill this year. This is the time farmers can use their voices to let elected officials know what's been working for them and what they think needs to change.

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Ag technology: precision plus profit

Last September, Fitch expected 2020 to wrap as a devastating year for ag-tech spending, but that didn't happen in the equipment sector. According to Dan Miller, DTN equipment and technology editor, tractor and combine sales exceeded 2019 year over year. Farm support payments helped this, along with farmers' increasing appetite for technology that helps them reliably automate routine tasks, reduce costs, and increase profitability, as well as lessen the impact of farming on the environment. Equipment has long been a story about engines and transmissions. Today, technology has climbed into the driver's seat. OEMs and equipment dealerships are challenged to help their customers consume the mountains of data their own technology is producing.

Long term, Fitch sees an uptick in ag tech, both in the rollout of new technologies and in adoption by agribusinesses. The report cites food security and supply chain vulnerabilities, laid bare by a global pandemic, as accelerating this growth. Technology helping farmers contend with the challenge of tight labor markets will grab the attention of farm and ranch managers.

Fitch Solutions anticipates a long-term uptick in ag-tech from new technologies and agribusiness adoption.

Pam Smith, DTN crops technology editor, who works closely with crop advisors and farmers, sees the same trend. While farm spending ebbs and flows with market fluctuations — farmers might try something new if they're feeling confident or pull back on something like weed control if the year looks lean — R&D is steady as companies compete for the industry's attention.

Gene editing is a topic worth following, not just for agronomic impacts and profitability, but new traits that deliver on consumer demands for healthier food, such as ADM's high-oleic oil. "Biologicals" have chemical companies' attention as they search for anything they can do to avoid labeling something a pesticide. On the supply chain side, ag market digitalization and the use of blockchain may get a pandemic push onto the on-ramp for serious consideration, finally.

Weather: all about water

While Mother Nature has the final say in the weather, farmers watch several indicators to avoid complete surprises from one day to the next. The La Niña Pacific Ocean temperature and atmosphere event is one historically reliable predictor of weather patterns, according to Bryce Anderson, DTN ag meteorologist and market analyst.

La Niña is the term given to describe a sustained cool sea surface temperature occurrence in the Pacific Ocean around the equator (see official NOAA definition). The average life span for a La Niña event is nine months, but it can re-develop during the growing season (the "double-dip"), which is why it's still making headlines after showing up in the United States last summer.

NOAA expects La Niña to stay around through the 2021 growing season; it already has a very high relationship to the drier, hotter weather in Argentina and southern Brazil (while central Brazil's soybean harvest was slowed due to rain). Take note. Historically, when La Niña affects the United States, odds are greater than 50% that corn yields will be below the trendline for the season.

> NOAA expects the current La Niña to stay around through the 2021 growing season.

The next watch is water: not enough, too much, just right? Much of the western Corn Belt is decidedly under drought conditions, with not much to help in the short term except irrigation — early and often — where available. Crop choices, more sorghum or soybeans for example, and shorter season varieties reflect farmers' recognition that drought conditions are merely manageable.

In contrast, the eastern Corn Belt could see higher precipitation this year, with wetter conditions to fight getting in the fields to plant.

The reminder that Mother Nature always wins doesn't mean farm operators have to be at her mercy. Farmers with DTN weather stations consistently report the investment worth it, with efficiency in spraying, irrigation scheduling, and impact, as well as informing management decisions overall. Fields don't have to be miles apart; geography alone can change the weather from area to area, and weather stations can aid decisions on moving that equipment today… or not.

Official NOAA Climate Prediction Center definition

"La Niña refers to the periodic cooling of ocean surface temperatures in the central and east-central equatorial Pacific that occurs every 3 to 5 years or so. La Niña represents the cool phase of the El Niño/Southern Oscillation (ENSO) cycle and is sometimes referred to as a Pacific cold episode. La Niña originally referred to an annual cooling of ocean waters off the west coast of Peru and Ecuador."

Markets: rely on data in hand, not predictions

It looked like 2021 was a heavy lift for a comeback from 2020, yet there are cautiously optimistic signs, according to DTN Market Analysts Todd Hultman and Shayle Stewart.

As the first half of 2020 was dominated by the global pandemic and the bearish demand concerns that went with it, the second half of 2020 was dominated by the surprise of stronger-than-expected feed demand from China. China's demand was large enough to shrink U.S. corn and soybean surpluses to their lowest levels in seven years and sent corn prices to heights not seen since the aftermath of the drought of 2012.

Ethanol demand in the United States is not back to pre-pandemic levels, but shows improvement from 2020, helped by a return of economic activity, along with vaccine distributions.

China continues to struggle to rebuild its hog herd with ongoing outbreaks of African swine fever, so it continues to aggressively purchase U.S. pork. This has been one of the reasons U.S. spot lean hog prices are currently trading near their highest level in more than six years.

Of all the U.S. ag product prices that suffered from the 2020 pandemic, cattle have had the most difficult time rebounding and are starting to show more encouraging signs of life late in the first quarter of 2021. Retail demand for beef stayed strong throughout the pandemic as consumers still chose this protein source to cook at home as restaurants closed or were restricted. Temporary closures of meat processing facilities in early 2020, however, created a backlog of overweight cattle that is finally showing signs of moderating.

Food security was also among the major trends the Fitch report indicated as an outcome of COVID-19 global impact; the report suggested one of the strategies governments might employ to mitigate future risk could be stockpiling. Hultman does not see that for China as its high domestic prices of corn and soybeans suggest the country was dealing with legitimate shortages of feed grain and oilseeds in 2020, part of a larger trend likely to become more exaggerated in future years.

> Fitch Solutions expects lasting global impacts on food security post-COVID. Stockpiling could be used to mitigate future risk.

As China's influence in grain markets has rapidly grown over the past couple of decades, it is becoming more difficult for analysts to assess market factors due to a lack of credible information from within China. This will likely bring more surprises, like those in late 2020, and more price volatility ahead for grains. Domestic grain prices from China's Dalian exchange have become an important proxy for fundamental information and could be the best source of market clues moving forward.

The challenge for U.S. agriculture will be to find new ways to succeed in a poker game where all the U.S. cards are shown on the table, while China's cards are kept close to the vest.

Conclusion

With multiple vaccines in distribution around the world, economists and investors are more confident today than Fitch imagined they could be last fall. The International Monetary Fund (IMF) projects the global economy could grow 5.5% in 2021 and 4.2% in 2022, although with uncertainty. Goldman Sachs recently upgraded its outlook for the U.S. economy, raising its forecast for 2021 U.S. gross-domestic-product growth to 6.8% from 6.6%. Consumer confidence in the United States continues to inch upward as well, also with caution.

The IMF projects potential global economic growth of 5.5% in 2021 and 4.2% in 2022.

It won't surprise farmers that "caution" is the keyword for 2021. Issues and trends outlined here are among those our experts will be assessing and that our solutions will help our subscribers track.

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