



Dan Basse delivers mixed bag of news to crowd at 2022 Feeding Quality Forum in Kansas City.

Story & photos by Miranda Reiman, senior associate editor

Epic floods, 500-year droughts, a war and political fights. These factors all threaten global food security, but are we in a “food crisis”? Dan Basse, veteran market analyst and president of AgResource, says no. However, he adds a qualifying, “not yet.”

In 1972, the world was at 63 pounds (lb.) of grain (corn, wheat barley, sorghum and canola) per person, according to United Nations data.

“That’s when we thought stocks were low enough to call it a crisis,” Basse said during a presentation as part of the 2022 Feeding Quality Forum in Kansas City in August. “Notice we are on the doorstep of a crisis, but we’re not there yet.”

Global grain stocks on a per-capita basis have been declining the last six years, while worldwide grain production has nearly flatlined. AgResource predicts an

additional 25 million acres are needed in the next five years to balance demand.

Why the shortage?

“As we look at the world economy, as we talk about what’s going on in agriculture, I have never seen so many balls in the air as we have right now. There’s so much going on,” Basse said.

Ukraine is a major global grain exporter, and the conflict with Russia has disrupted much of its production and shipping.

“We hear about all these

vessels that are leaving the corridor, and the news is very upbeat about what’s going on in terms of feeding the world,” Basse said. “But, boy, we’re a long way from normal in terms of what needs to happen in terms of export availability out of the corridor today.”

What was 40-60 ships a day two years ago is five to six now, he said.

Basse said the second war to disrupt the ag industry is the “war of the central banks trying to keep inflationary pressures and commodity pressures down.”

“This is the biggest rally in food

prices that the world has ever seen, going back to World War I,” he shared.

Yet, Americans spend only 6.7% of their disposable income on food, compared to 20%-70% in countries across the globe.

“If you’re one of the 72 million that only lives on \$2 per day, the increase in vegetable prices and grain prices is really a big deal. And the world food program is struggling mightily to keep all these people fed, principally in North and South Africa,” he said. “Food prices in these countries cause political strife. They cause changes in regimes.”

It’s not just food prices that are increasing.

“Notice that this is the biggest inflationary spike we have seen going back to the late 1970s,” Basse said.

The central bank has indicated it will target a 2% inflation rate.

“We think that’s going to be really, really tough,” Basse said. “The Fed (Federal Reserve) is trying to use a very blunt instrument, called rising interest rates, to hammer us in terms of demand.”

What the world needs is increasing ag and other commodities, he explained.

“We think the odds are better than 70% that we will see a recession sometime in 2023,” Basse said.

The China factor

Tensions between China and the United States continue to grow, but the two countries are dependent on each other, he said.

“We can have the political differences, but somehow we need their paper towels, and they need our ag products,” Basse said.

China imports 79% of its food. Still, when they can be discerning in who they buy from, they will.

“If the Chinese can source a soybean cargo from Brazil and not the United States, they will do that. If China can source a Brazilian beef cargo and not a U.S. cargo,



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they will do that,” he said.

If a conflict would break with China, it would not be good for American agriculture, Basse noted.

Combine that economic and political unrest with a pattern of “historic” weather events, and it adds up.

Stagnant yield, increasing demand

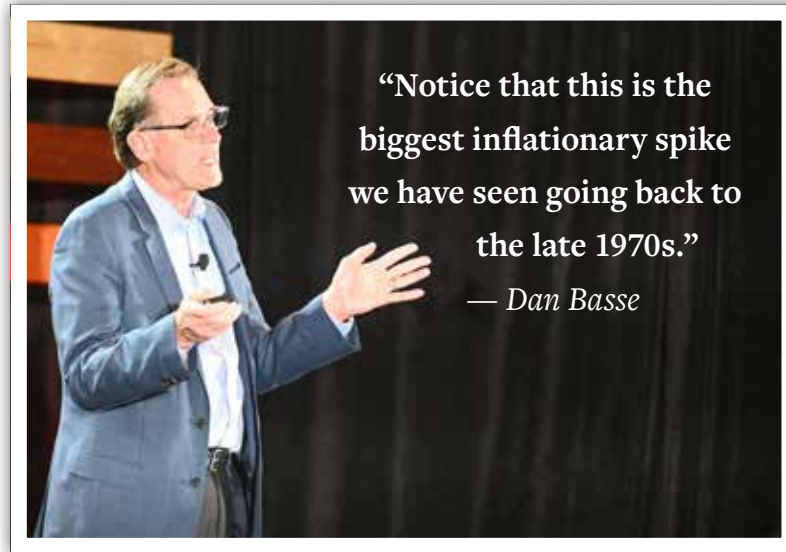
“Unless there’s a drought, or unless something major is happening, agronomics, seed, fertilizer, you as an individual, all combined to produce more and more yield per acre,” Basse said, noting the long-term trend for increasing yields. The first few years that upward trend turned stagnant, Basse said, he was “shocked.” Then, as it continued, his staff looked for causes.

“As we step back for now five years, we can really find only one fundamental thing that plays into this: weather,” he said. “We have now twice as many floods. Heat

has become a big issue on corn and other crops around the world.”

India, the world’s second-largest producer of wheat, is in a historic drought. Places like southern Brazil and Argentina reached record-high temperatures this year. This summer, England and France reached 105° Fahrenheit for the first time in recorded history.

Many parts of the Western United States are also in severe drought this season. However, AgResource’s national average yield estimates match closely with USDA’s at somewhere between 172 to 176 bushels (bu.) per acre. Due to prevent-plant acres and the discrepancy between corn planting



intentions and certified acres, Basse said, he expects at least a 1 billion bu. drop in the amount of corn produced.

“Any time December corn futures get near or below \$6.20, you better own it longer term, because we still think there may be a \$2 rally as we head into winter and spring,” Basse said. “Feed prices are not going to relent, but they are going to be volatile.”

The European Union will be the world’s largest corn importer this year, and it has quietly dropped its non-genetically modified organism (GMO) requirement to allow for imports from the United States.

Soybeans will set a production record. Although with growing demand for renewable diesel, that large crop is needed. There’s been approximately \$7 billion invested by big oil companies, indicating a long-term commitment to the clean fuel, Basse said.

Showing a map of new processors and those under construction across the United States, he said, “If I take these plants and run them at 80% capacity, knowing that there’s 11.7 pounds of soybean oil in each bushel of soybeans, I need 20 million extra acres of soybeans to run these plants. That can’t happen.”

The United States has maxed out on farmland, he noted.

“Remember, I said we are on the doorsteps of a food crisis. We’re not there today, but if I have a

South American weather problem, we will break that threshold in 2023,” he said.

The good news for the cattlemen was that despite record-high beef production from January to June of this year, prices have remained high.

“This demand, these high beef

prices are occurring in a time when you all are still moving tremendous amounts of beef into the pipeline,” he said. “This is a demand-led market in beef and cattle. This is not supply-driven yet.”

Packer margins are trending down to more normal ranges, off the extreme highs of 2020 and 2021. When the dollar weakens toward the end of the year, this will bolster beef export demand, he predicted.

“We believe beef prices will soar higher as we head into the end of the year and early next year,” Basse said, offering the cattle feeders some advice. “When you get weakness in the feed sector, you need to be buying it. When you get weakness in the feeder-cattle market, you need to be buying it longer term.”

The only trend that seems certain is unpredictability.

“I don’t care where you’re looking at in agriculture today, it seems like we’ve got a market that’s going to be extremely volatile, and it’s a fight between the central banks, the U.S. cattlemen, U.S. grain producers. That’ll be ongoing for the next six or nine months.” ■

Editor’s note: Certified Angus Beef hosted its 17th annual Feeding Quality Forum Aug. 23-24 in Kansas City, Mo. The event was sponsored by AngusLinkSM; Diamond V; Micronutrients; Feedlot Magazine; Select Sires; Performance Livestock Analytics, a part of Zoetis; and U.S. Premium Beef. To learn more or view coverage, visit www.feedingqualityforum.com.