

2019 Ag Commodity Markets and the Bumpy Road Ahead

Doug Johnson, Director, Sales

May 22, 2019

2019 Ag Commodity Markets and the Bumpy Road Ahead

Join Doug Johnson from Moody's Analytics and Mike Pearson, Co-Host of Ag News Daily as they discuss the uncertainty and volatility of the Ag commodity markets and the impact it's having on Producers and Ag Lenders alike.

The concern we have is not about "Farming Today". Our concern is about "Farming for the Future" and the requirements it will take for Producers **and** Ag Lenders to remain relevant as our industry faces challenges from the Ag commodity markets and capital requirements needed to remain sustainable.

We're in a tough cycle in Agriculture right now, and how your Producers and your staff adapt will be key to remaining viable in the future.

2019 Ag Commodity Markets and the Bumpy Road Ahead

Agenda:

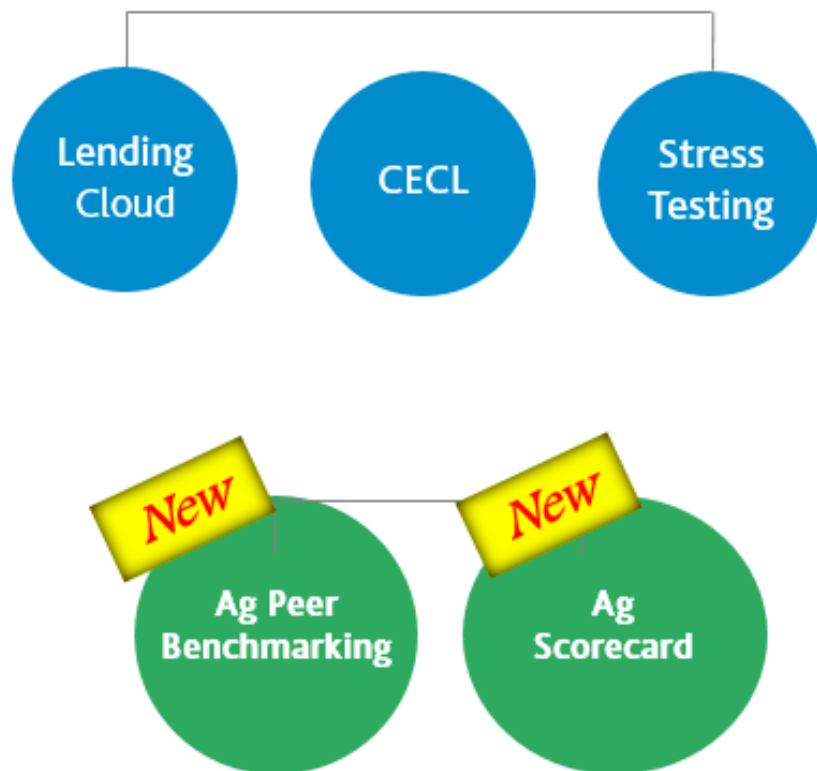
- **Toolbox of Data**
 - Help Producers understand the Business vs. Tractors
 - Help create better Partnership
- **Global Commodity Headwinds**
 - Trade Agreements
 - Technology
- **National / Local Drivers that could shift Markets**
 - Wealth vs. Recession
 - Next Generation Eaters
- **Don't React:** Make Your Plan | Understand Your Plan | Execute Your Plan

Moody's Analytics Loan Origination

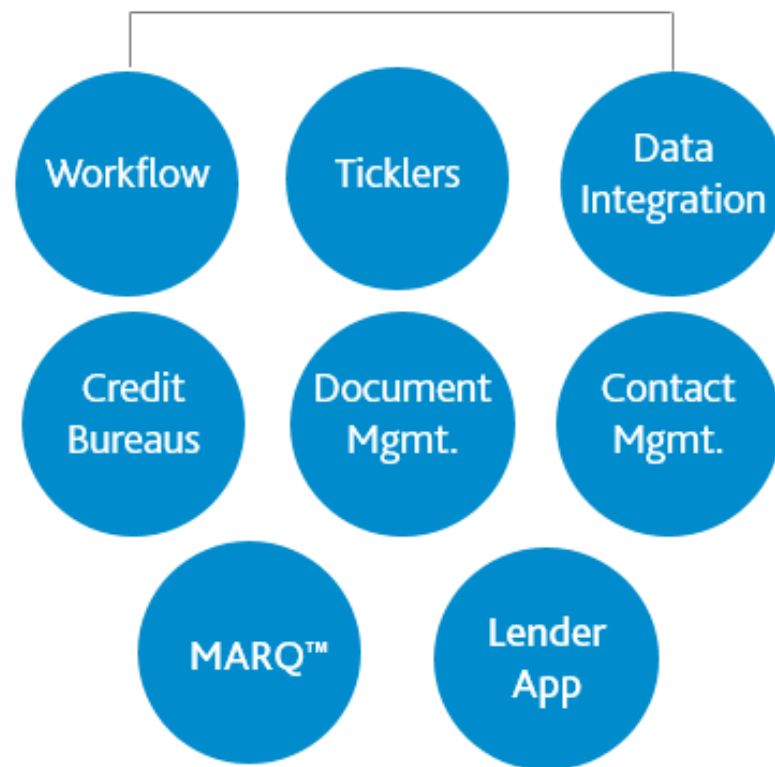


SaaS Platform

Product Solutions



Integrated Tools

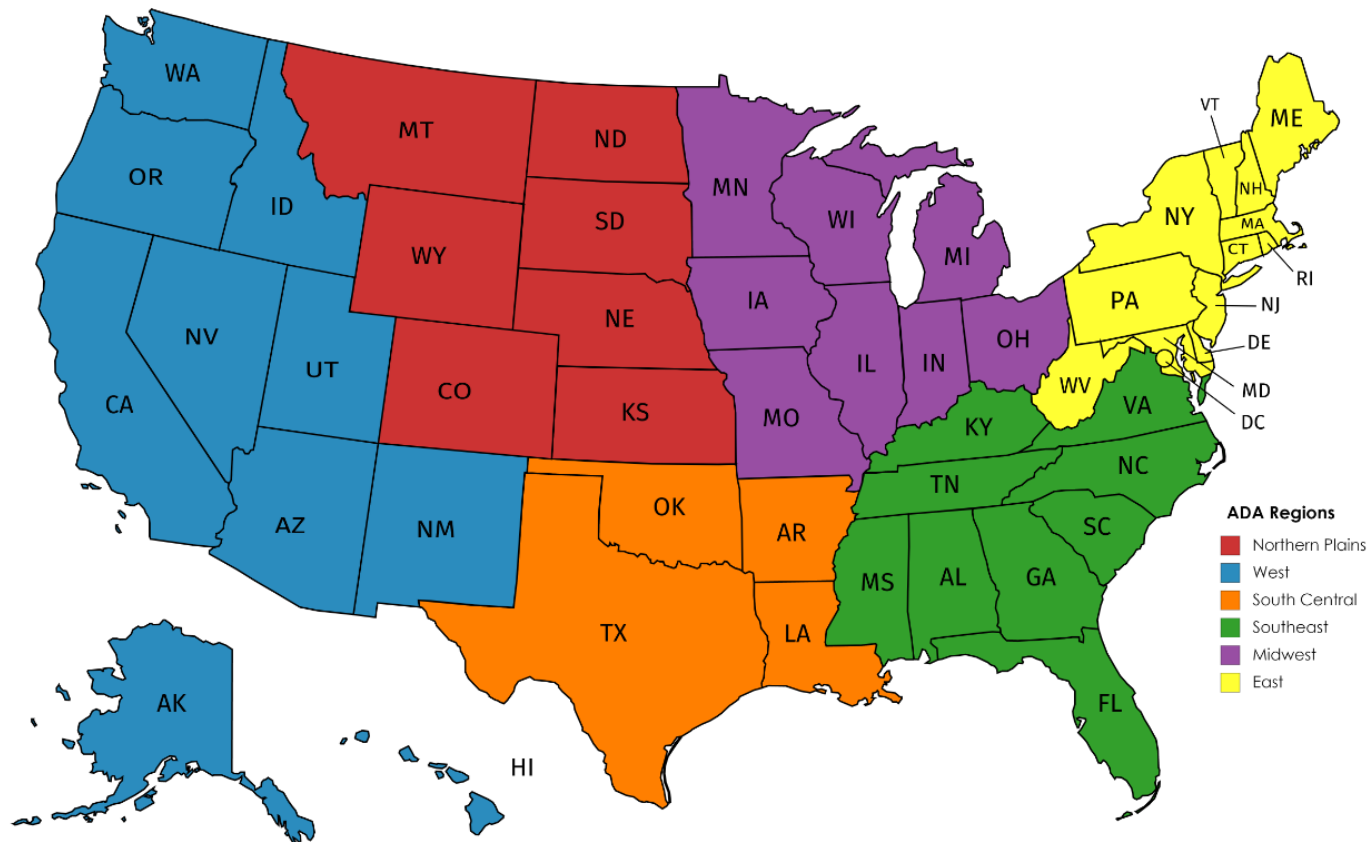


Ag Peer Comparison: Internal & External



Ag Peer Comparison: Internal & External

Benchmark to Bank | State | Regional | National



Ag Scorecard

Score Now

8.27 %=PD Risk Rating: 13

Criteria

Liquidity Ratio	0.91
Debt to Assets	51.29%
Term Debt Coverage Ratio	-0.36
Interest Expense Ratio	4.01%
Return on Assets	-3.98%

Ag Sector Type	Crop
Industry Conditions	Declining
Diversification of Products	Non-Diversified
Years in Relationship	1-3 Years
Conduct of Account	Fair
Farm Conditions	Fair
Experience in Ag	3-15 Years
Financial Reporting and Formal Planning	Poor
Risk Management	Fair

Comments

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1 to 14 point scale

← 1 = best | 14 = worst
% likely to Default next year

Quantitative Factors

← Hardcoded
65% Weight

Qualitative Factors

← Hard Coded | Manual Answers
35% Weight

← Comments

Ag Scorecard

Your Bank Risk Rating

Score Now

Score = 1.50
REVIEW

2 Good

Financial Statements and Forms calculated from:
Balance Sheet: Inc. / Exp.:
12/31/2015 01/01/2015

Criteria		Wt % Review
Management Experience	Greater than 15yrs	12.50 -
Experience in Industry	10-15 years	12.50 ✓
Risk Management	Pro-Active	12.50 ✓
Debt to Equity	3.59	12.50 ✓
Current Ratio	1.42	12.50 ✓
Return on Assets	15.09%	12.50 ✓
Term Debt Coverage Ratio	1.92	12.50 ✓
Margin of Collateral to Loan	3.03	12.50 ✓

Comments

Moody's can help predict Probability of Default (PD) and identify potential Risk in your portfolio

Moody's Ag Scorecard

Score Now

8.27 %=PD Risk Rating: 13

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Liquidity Ratio	0.91
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Ag Sector Type

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Risk Management	Fair

Comments

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Presenters



Mike Pearson

Co-Host of “Ag News Daily”



Doug Johnson

Director – Sales Management

Moody’s Analytics Lending Cloud

2019 Ag Commodity Markets and the Bumpy Road Ahead

Headwinds:

Global headwinds facing the Commodity Markets:

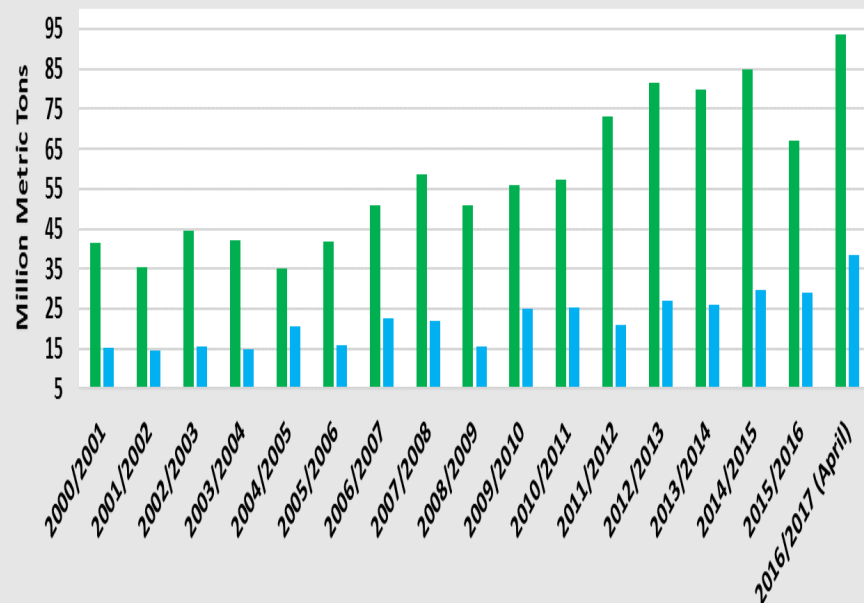
- **Global Production**
 - We've taught the world how to farm
 - Technology leveled the playing field
- **“War of Words”**
 - Trade Agreements
 - Lack of Trade Agreements
- **Global Drivers that could shift Markets**
 - Wealth vs. Recession
 - Next Generation Eaters

Global Production / Yields



Global Production Continues to Increase

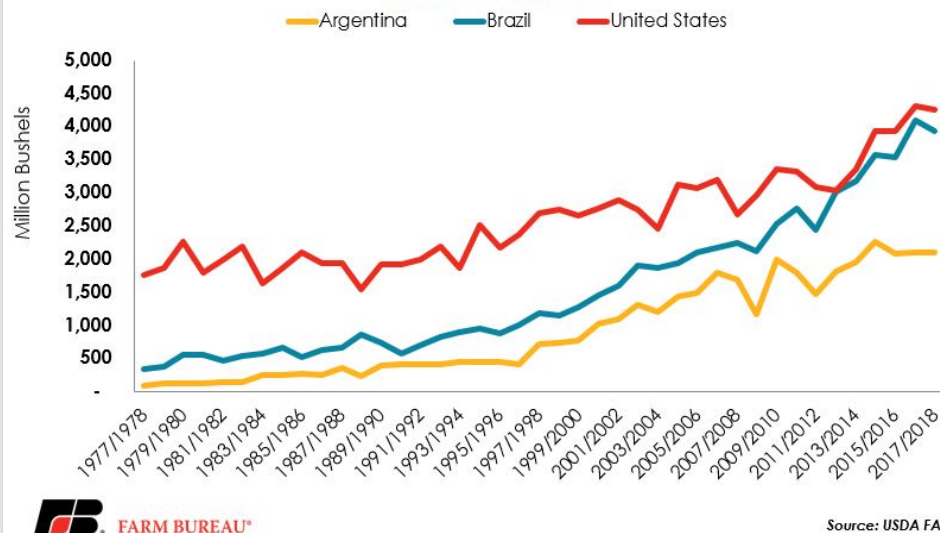
Figure 3: Brazil and Argentina Corn Production (Million MT)
2000/2001-2016/2017



Source: USDA-FAS.

■ Brazil ■ Argentina

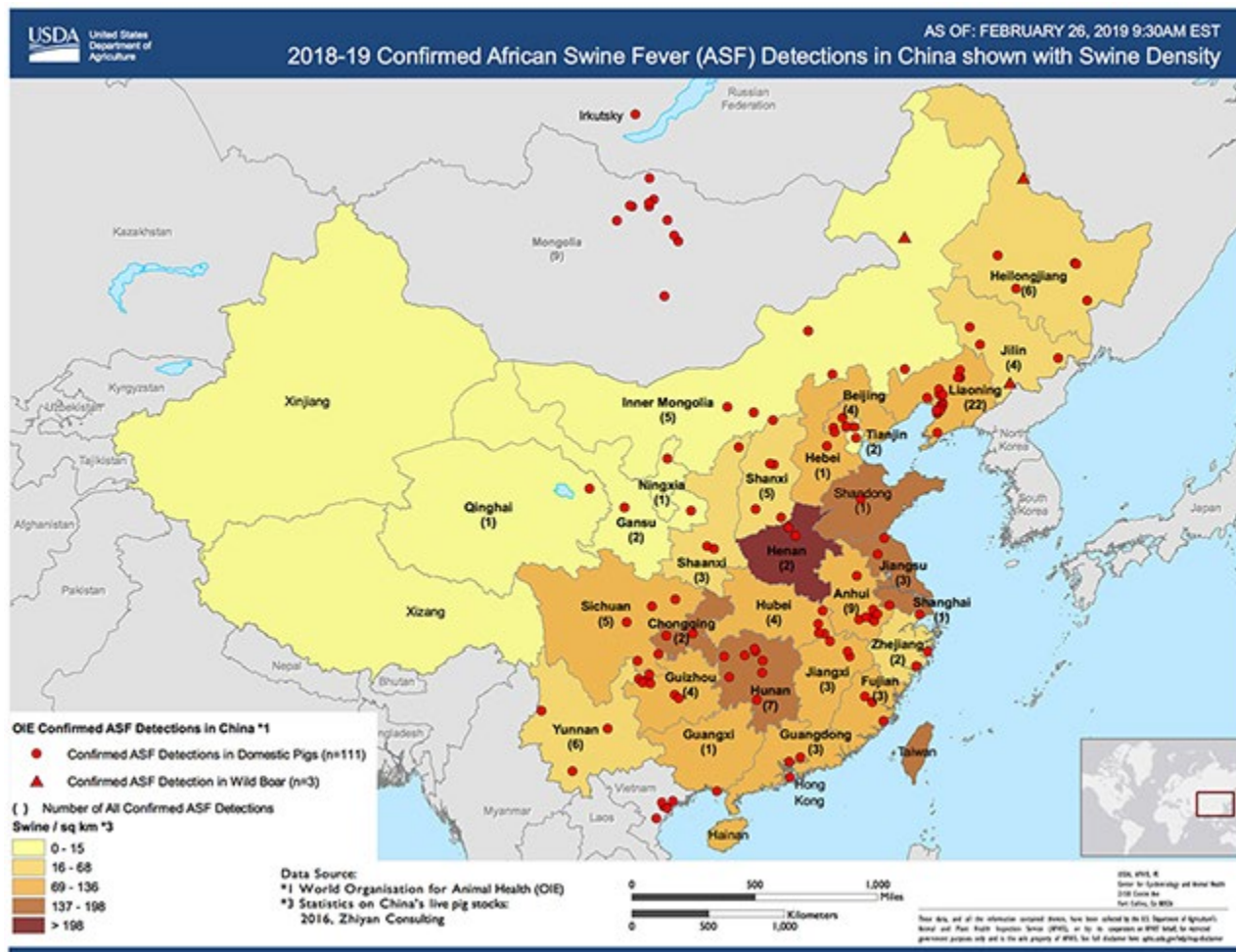
Figure 2: U.S. and South American Soybean Production
1977/78 to 2017/18



FARM BUREAU

Source: USDA FAS

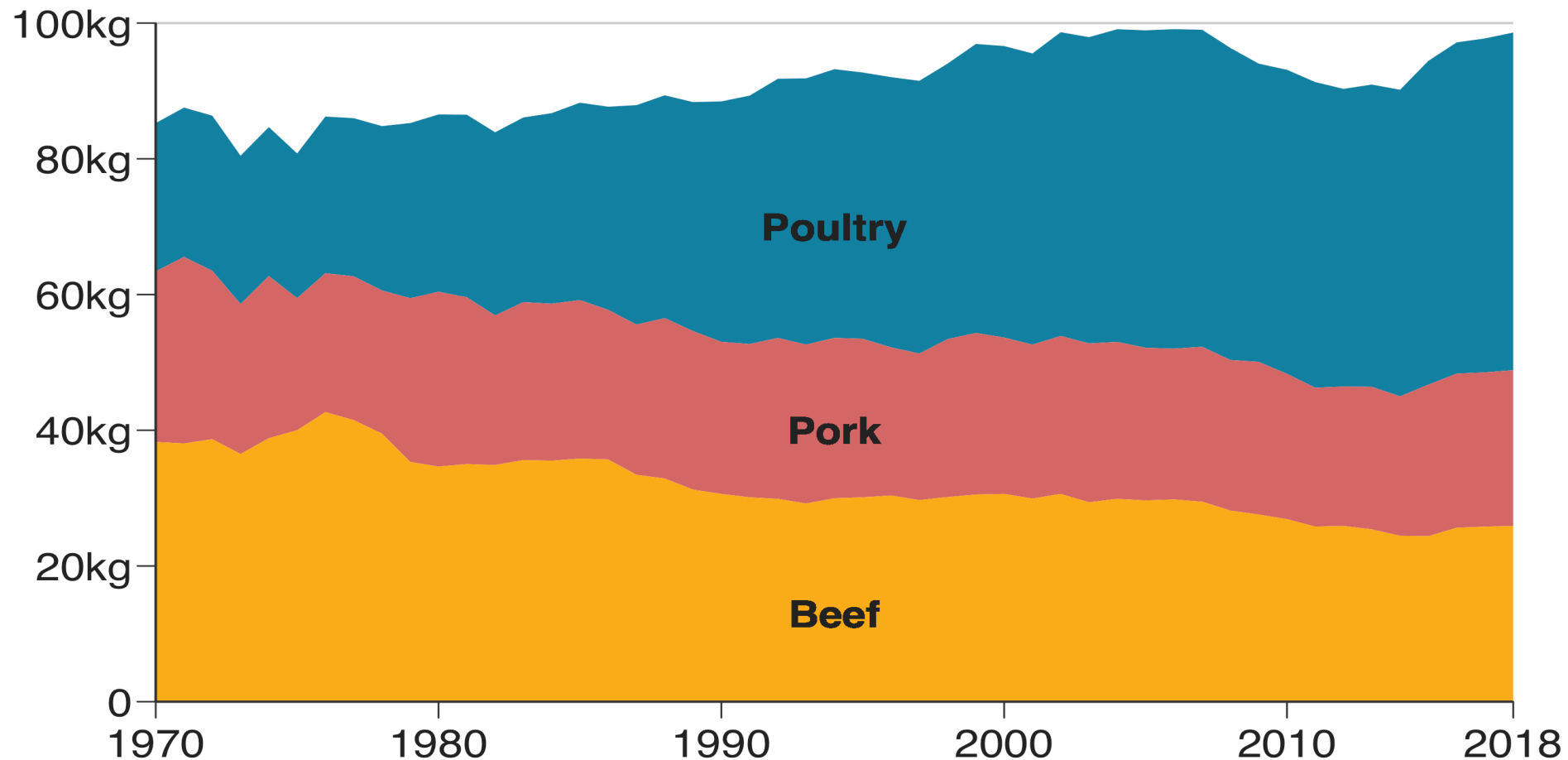
Chinese Production



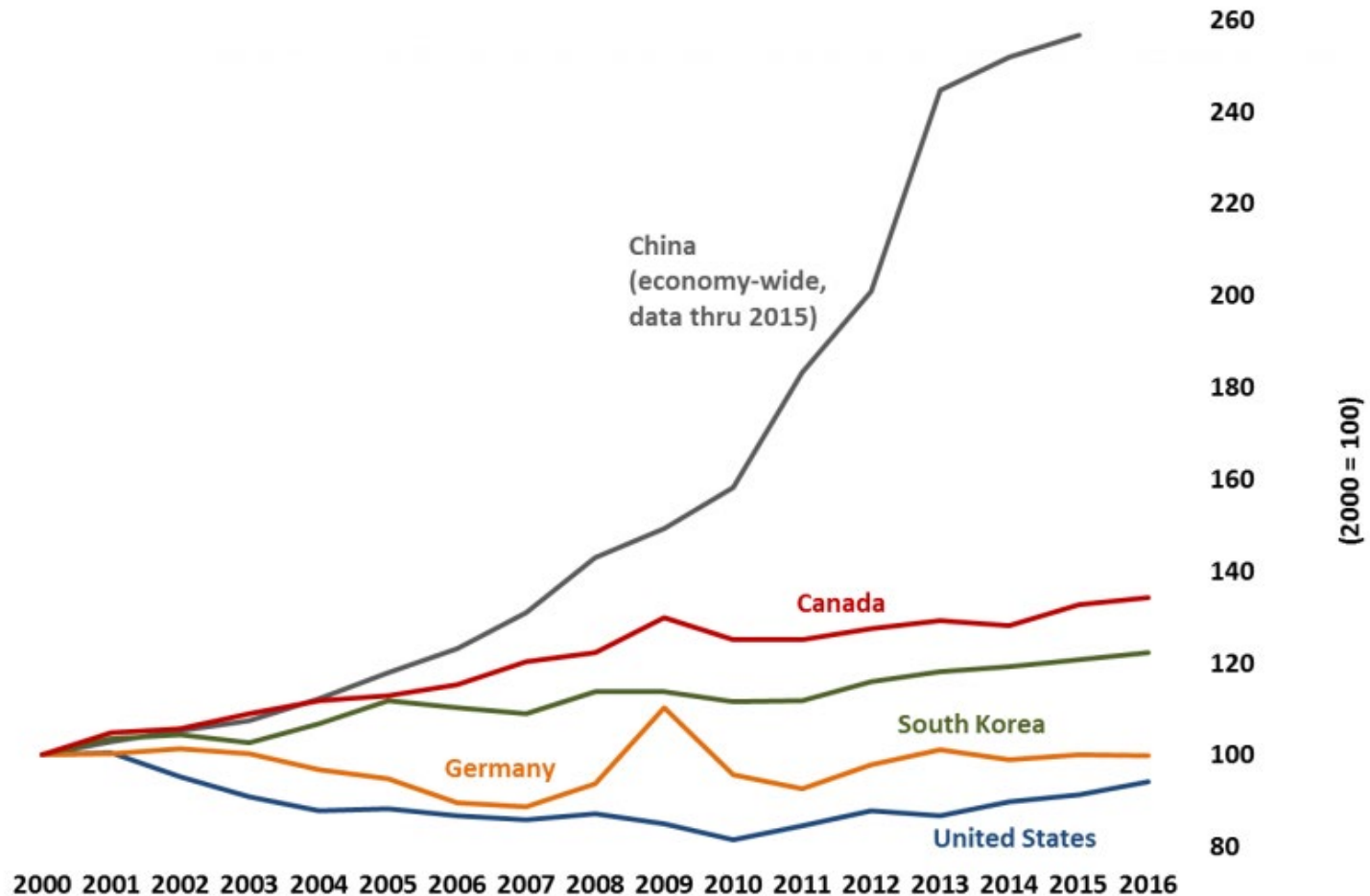
Protein Consumption

Meat consumption in the US

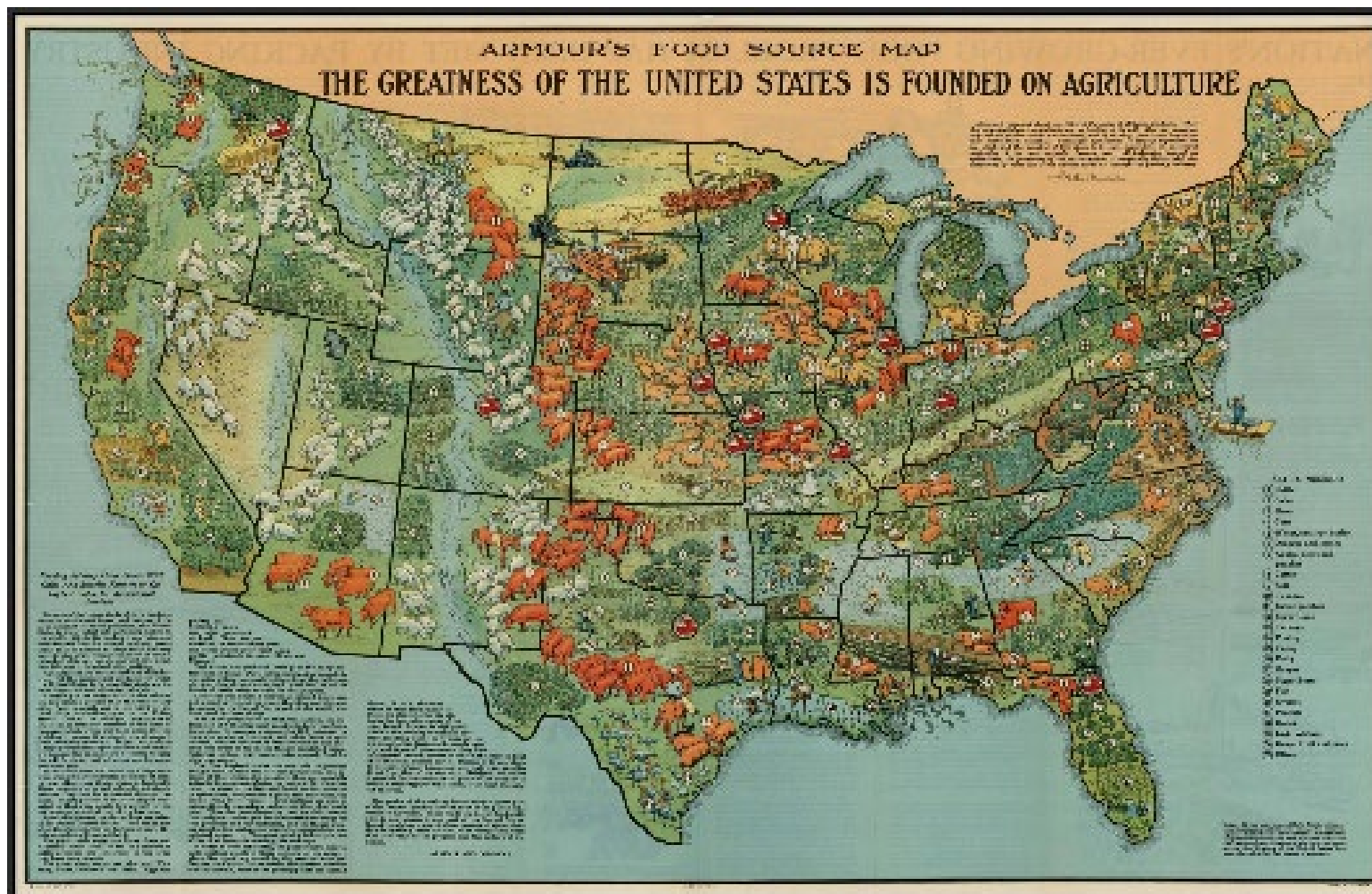
Average annual consumption per person, by type of meat



Changing Asian Labor Market

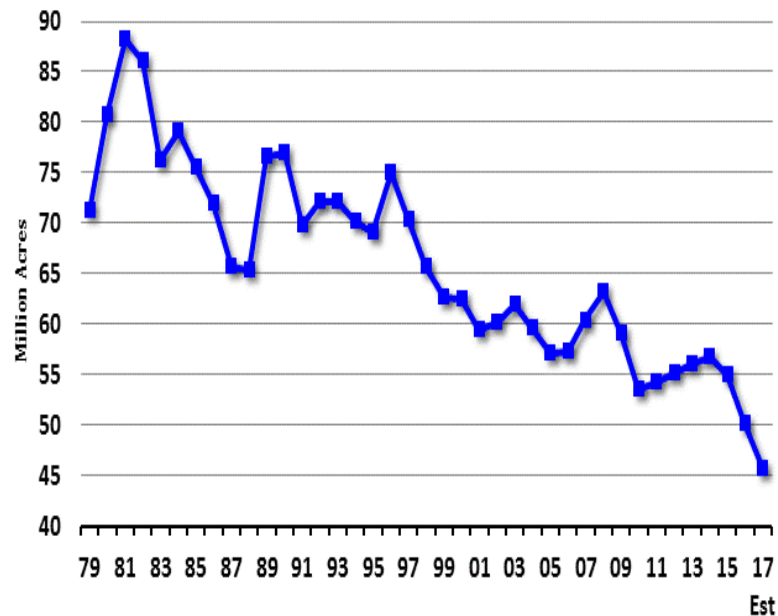


US Demand & Trends



US Demand & Trends

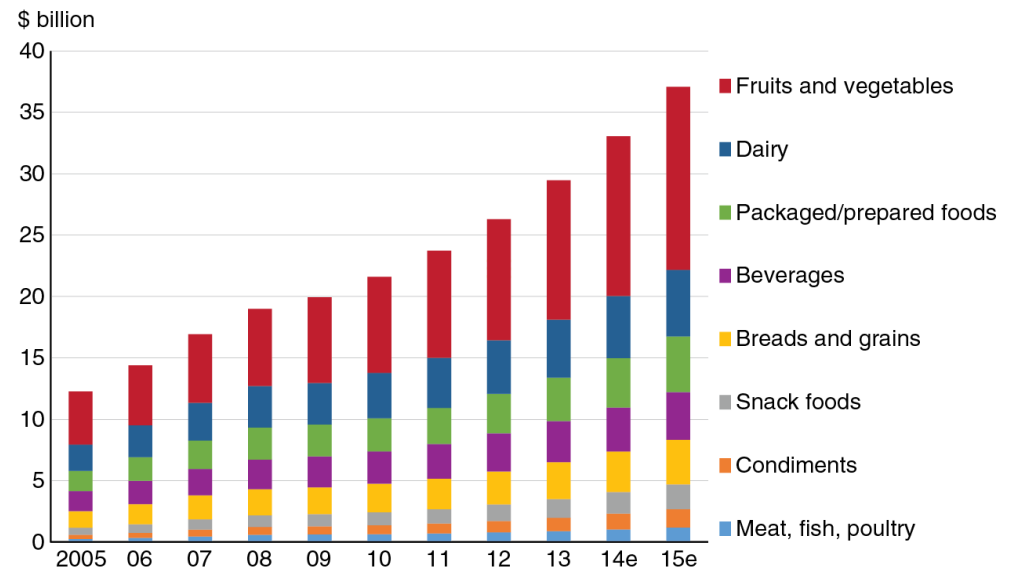
US All Wheat Planted Acreage



Most Recent: 45.70 As Of 09/12/2017

The Hightower Report

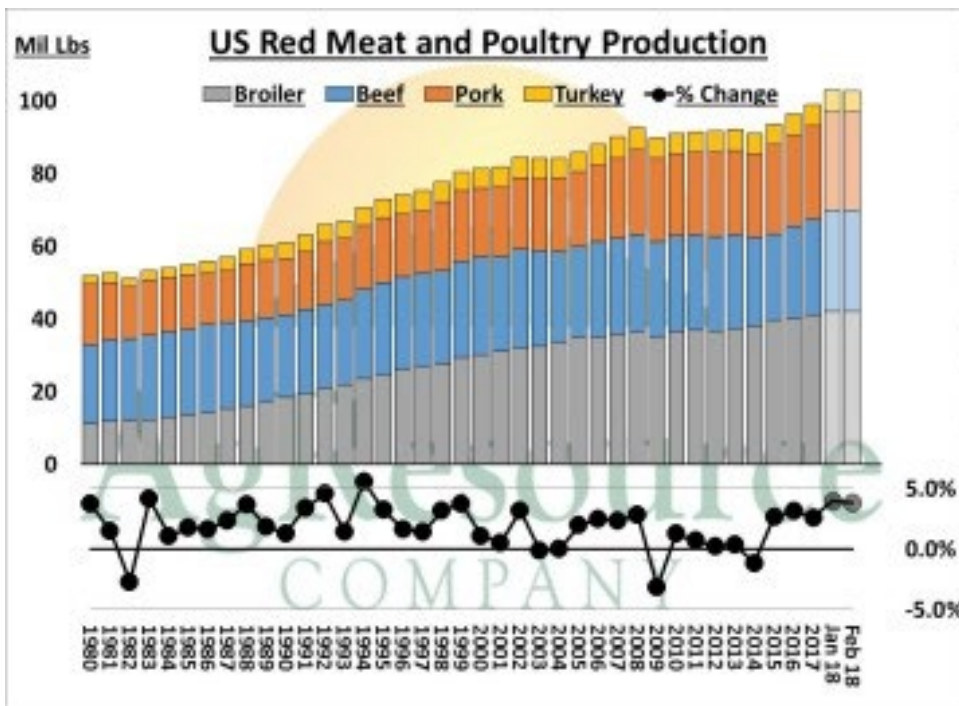
U.S. organic food retail sales, 2005-2015e—Fruits and vegetables are still the top category



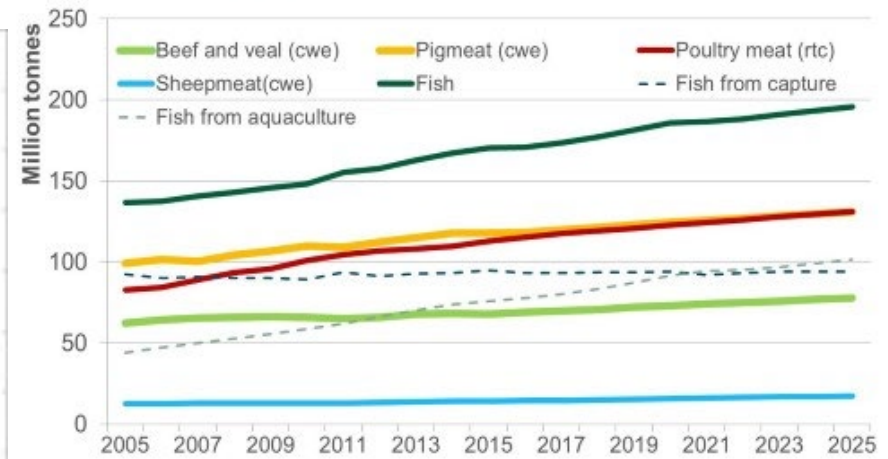
Note: e = estimated. NBJ estimates of U.S. organic food sales are typically somewhat lower than Organic Trade Association estimates.

Source: USDA, Economic Research Service using data from Nutrition Business Journal (NBJ), 2015.

Meat Production Continues to Increase

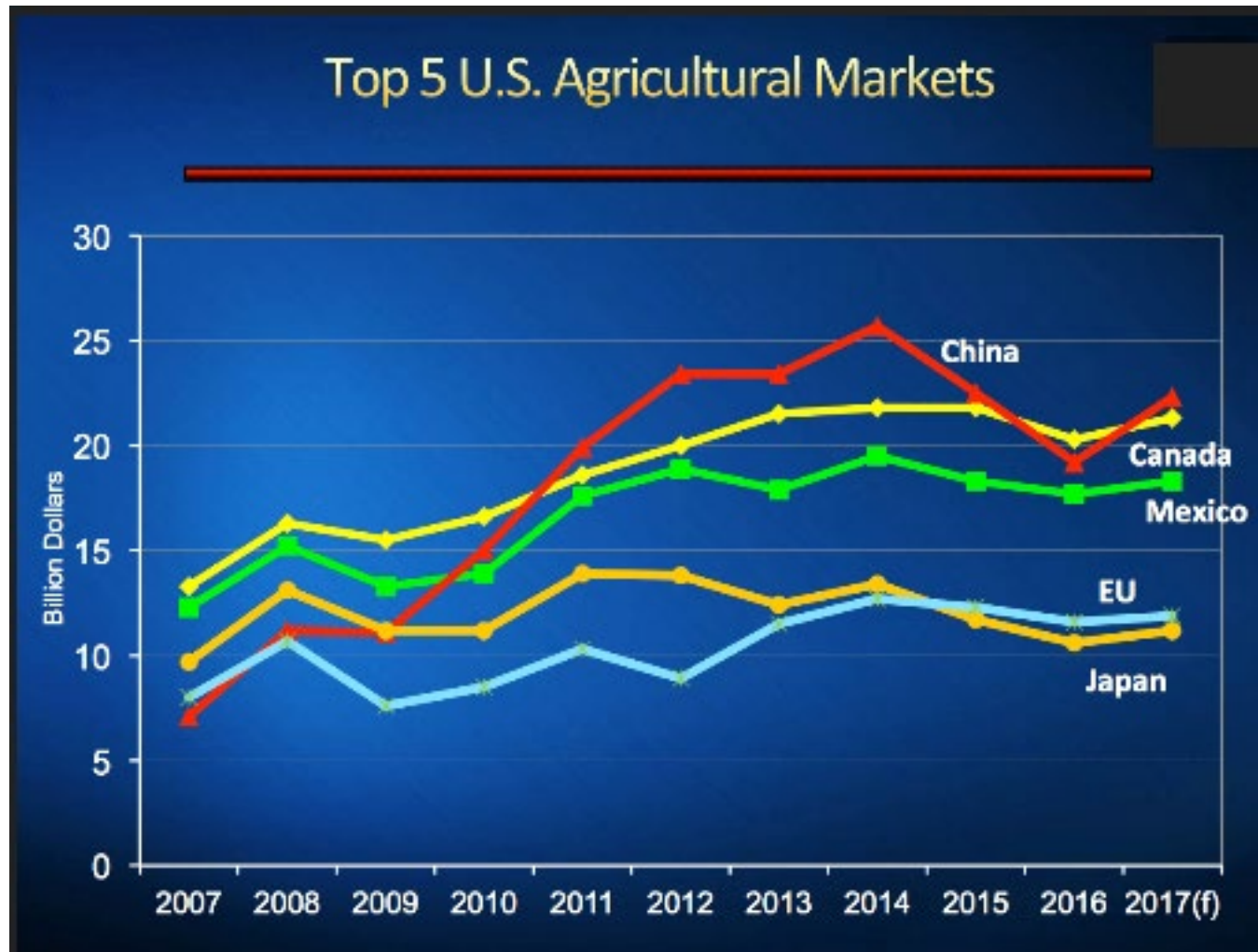


Global Production



Source: OECD-FAO

Trade Policy

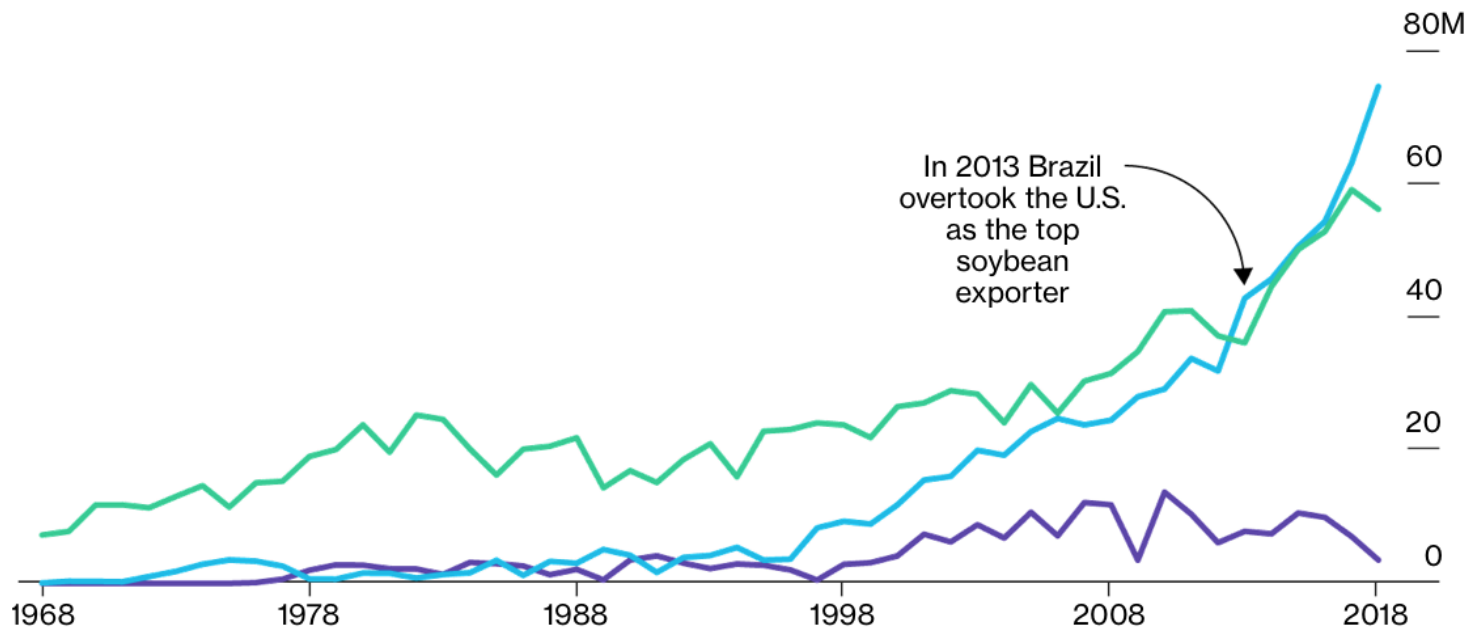


Trade War Fallout Continues

Brazil Has Overtaken U.S. Soybean Exports

Metric tons

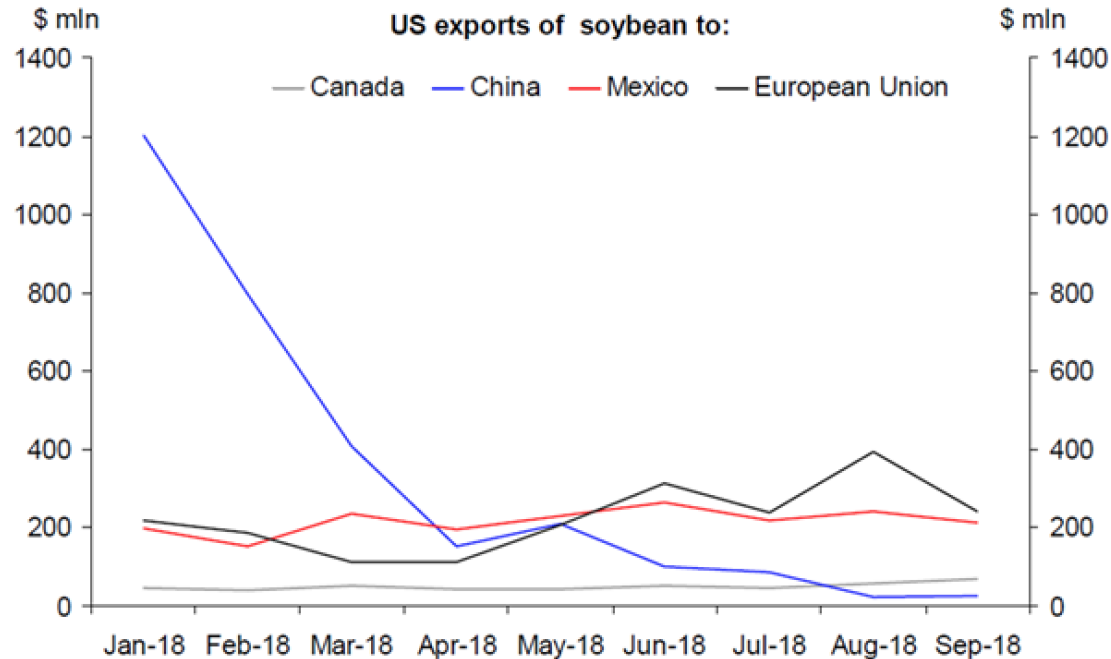
■ Brazil ■ U.S. ■ Argentina



Source: U.S. Department of Agriculture

China is out of the US Bean Market

US exports of soybean to China
down 98% percent in 2018

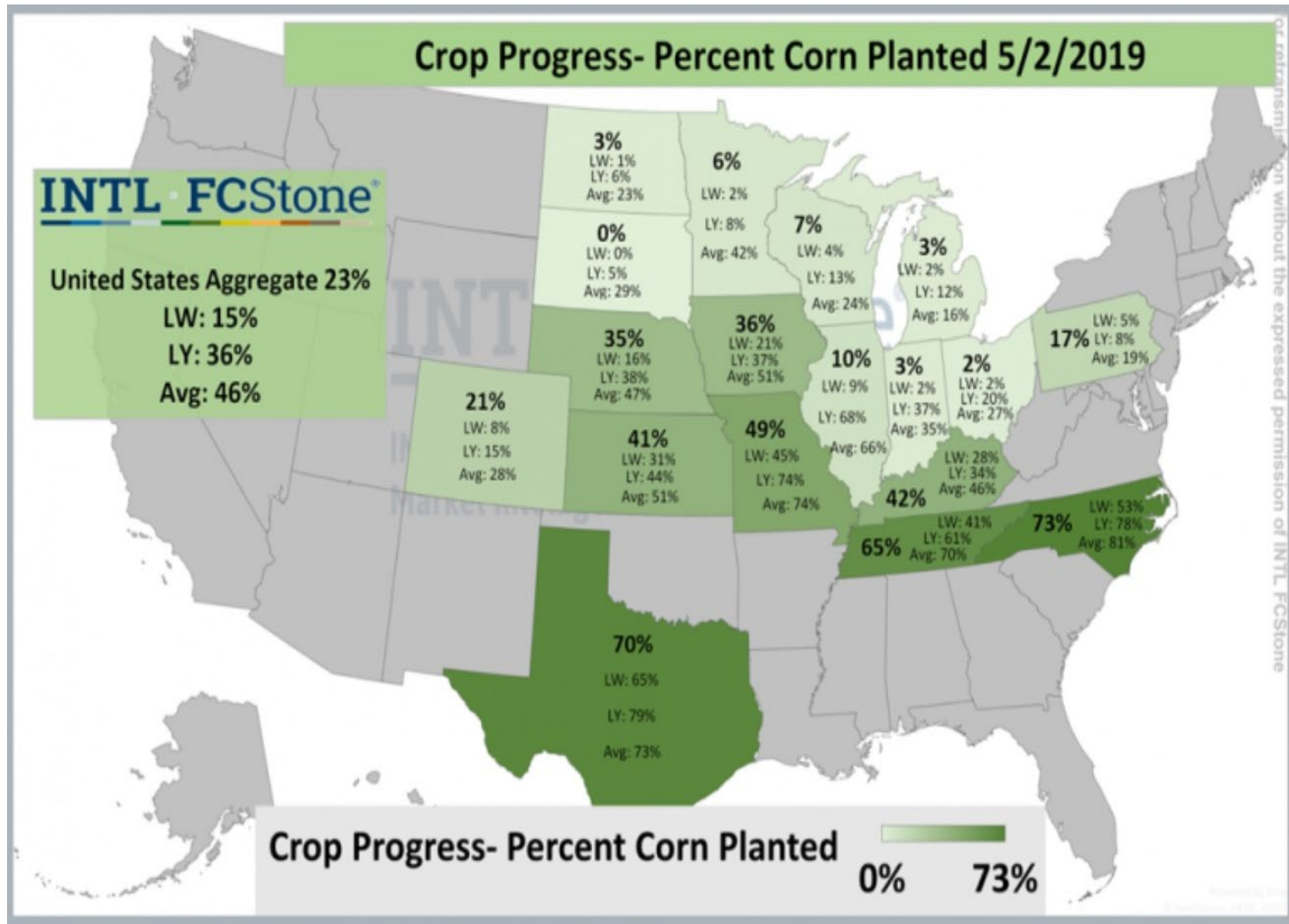


Source: Census, DB Global Research

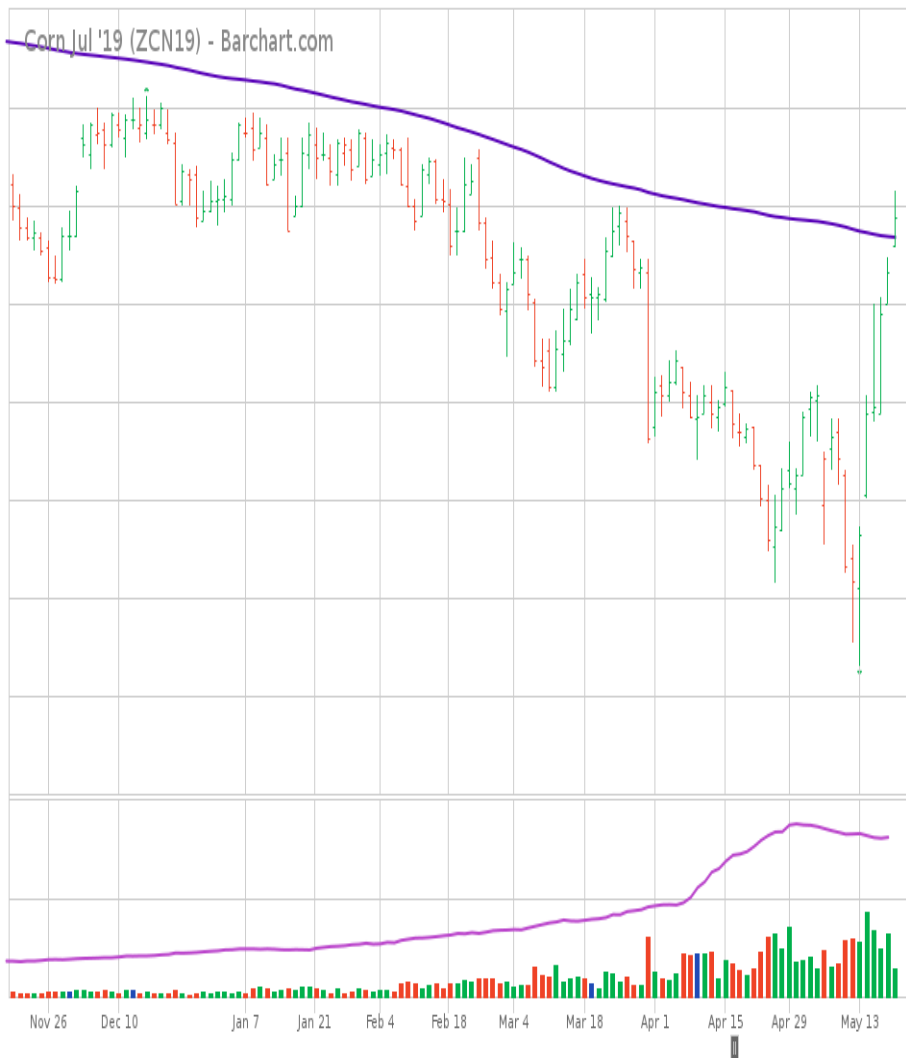
Corn Markets



Weather Market!



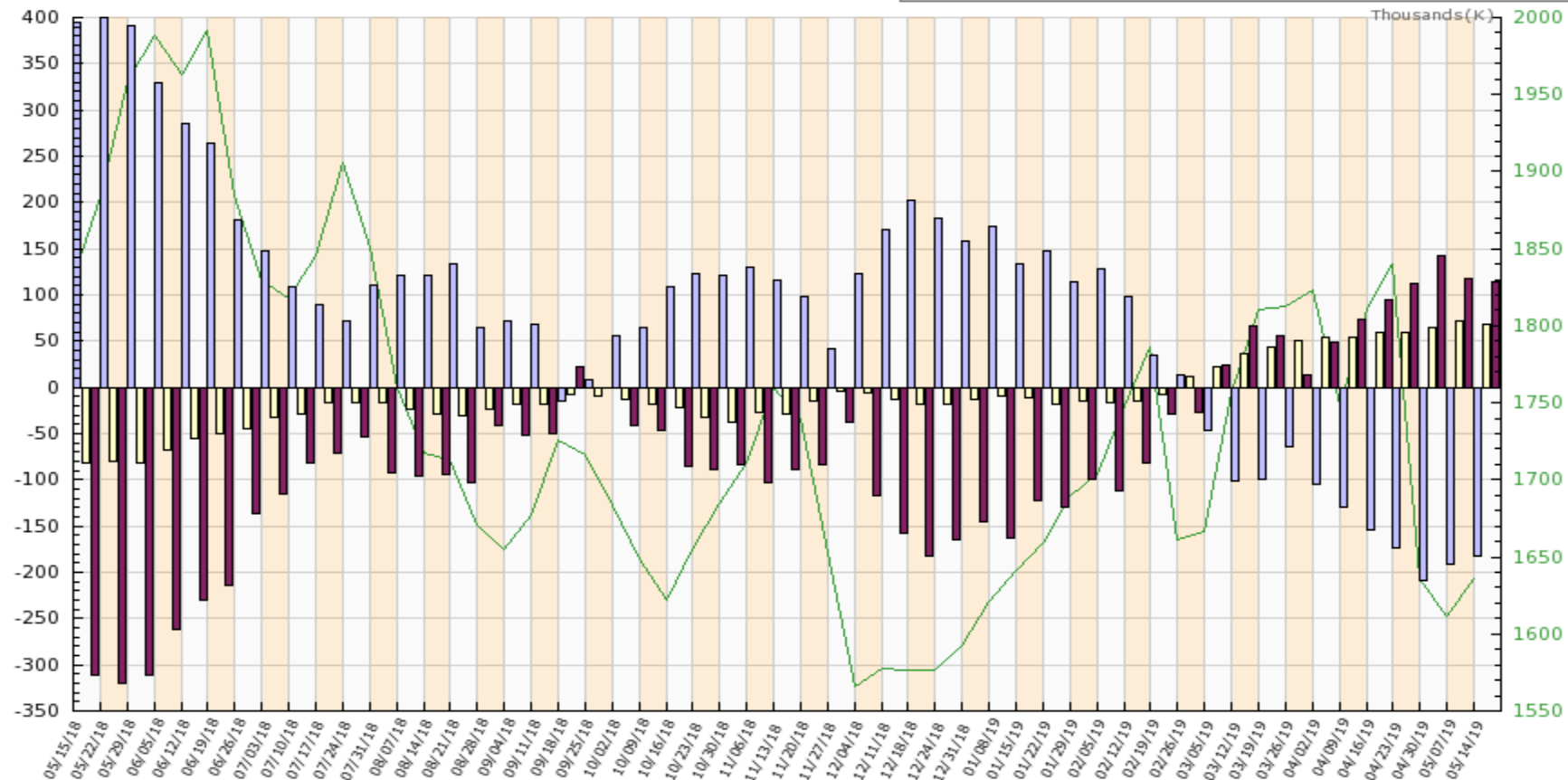
CBOT July, December Corn Contract



Corn Commitment of Traders Report

(C,cbt) Corn
Net Commitments of Futures Traders

Large Spec Small Spec Commercial Open Interest



Charts compiled by Software North <http://cotpricecharts.com/commitmentscurrent/>

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --			Open
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
04/16/19	563	412,412	566,903	42%	672	789,199	694,737	53%	242901	182,872	1,810,497
04/23/19	568	417,527	590,669	41%	665	812,096	699,633	54%	241686	181,007	1,840,777
04/30/19	548	373,602	581,894	39%	634	728,139	585,227	55%	229572	164,192	1,636,675
05/07/19	533	375,616	566,664	40%	632	704,999	586,234	55%	235905	163,622	1,611,629
05/14/19	528	373,631	557,520	40%	651	740,747	625,168	54%	233941	165,631	1,636,522

Soybean Markets

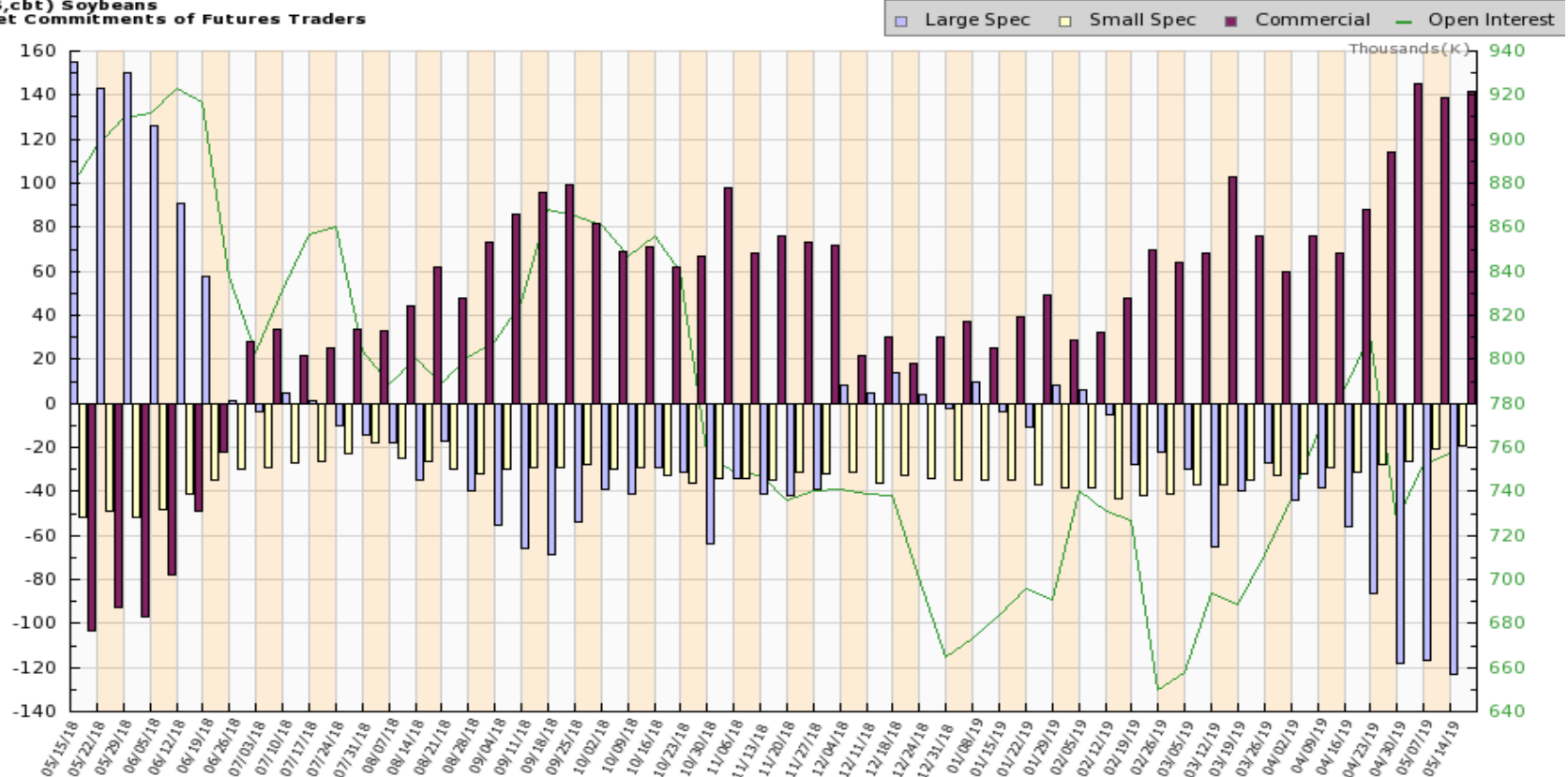


July, November Soybean Contract



Soybean Commitment of Traders Report

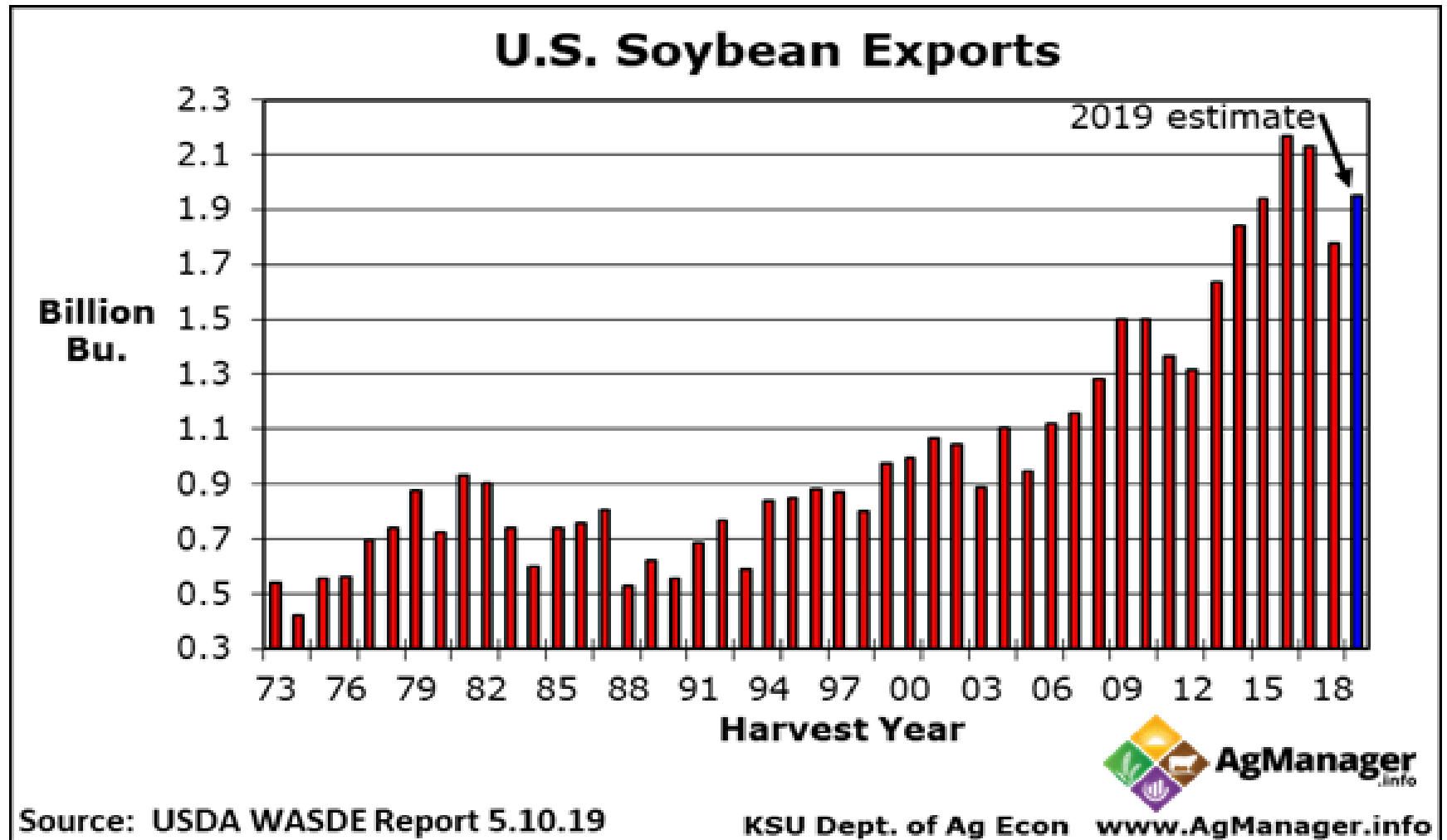
(S,cbt) Soybeans
Net Commitments of Futures Traders



Charts compiled by Software North <http://cotpricecharts.com/commitmentscurrent/>

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --				Open
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish		Intrest
04/16/19	477	143,284	200,190	42%	406	416,120	327,813	56%	52991	84,392	39%	787,124
04/23/19	497	142,923	229,423	38%	418	443,607	329,066	57%	53075	81,116	40%	811,336
04/30/19	468	125,622	243,957	34%	373	401,434	256,155	61%	48758	75,702	39%	727,156
05/07/19	479	138,532	256,043	35%	373	405,238	266,212	60%	51432	72,947	41%	752,910
05/14/19	472	139,203	262,598	35%	377	401,285	258,620	61%	51000	70,270	42%	757,088

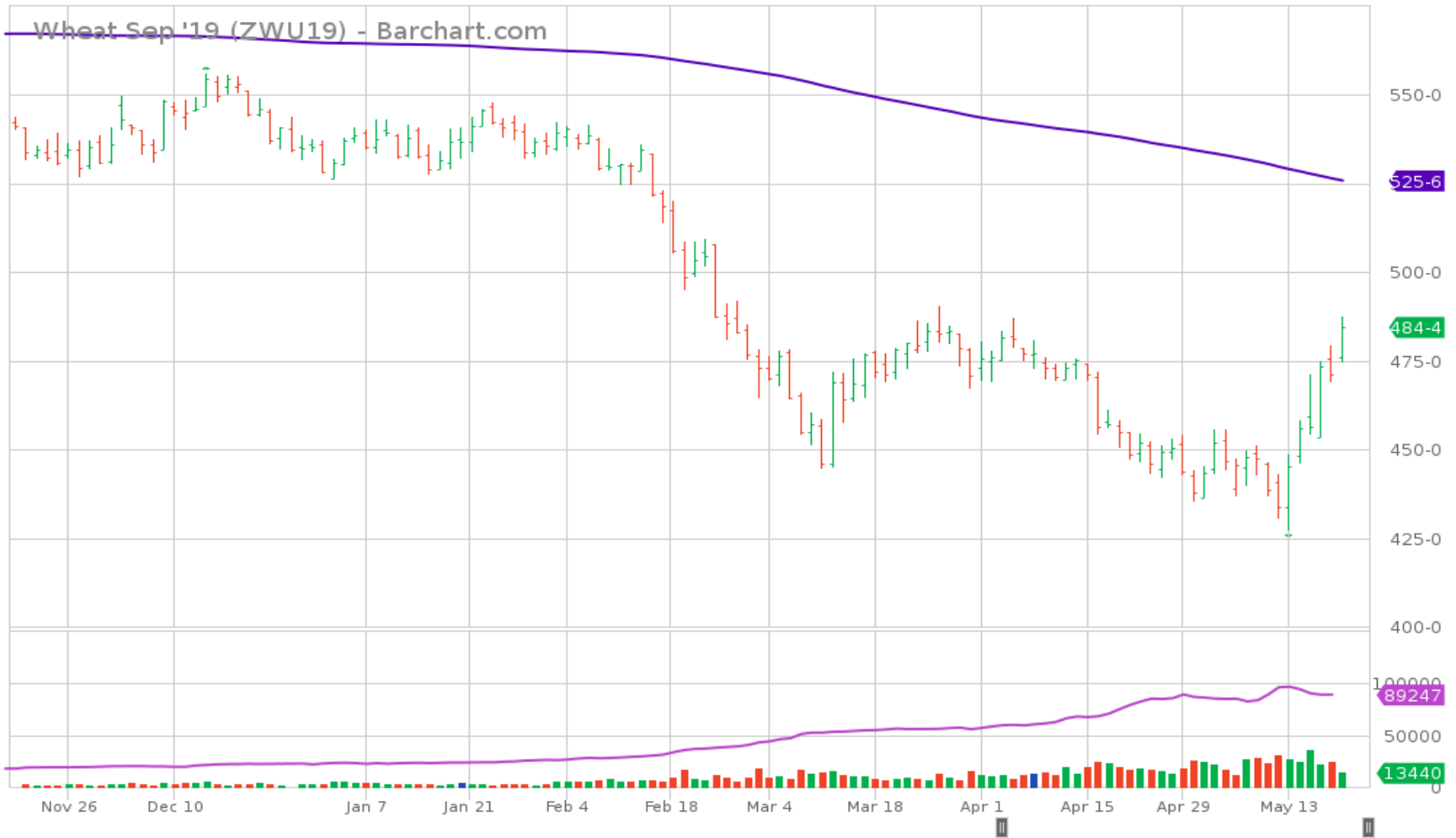
Slow Exports Continue



Wheat Markets



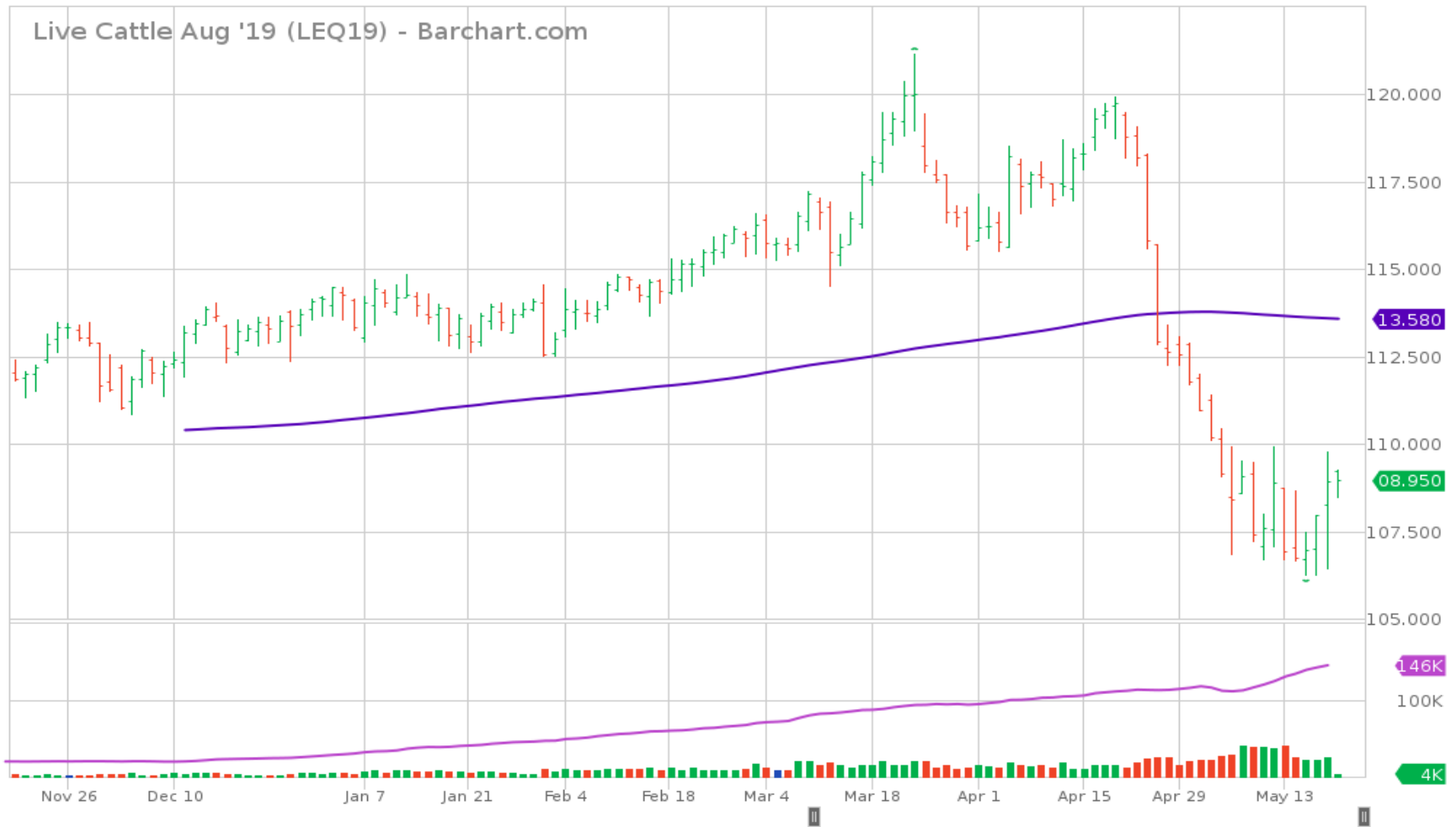
September 19 Chicago Wheat



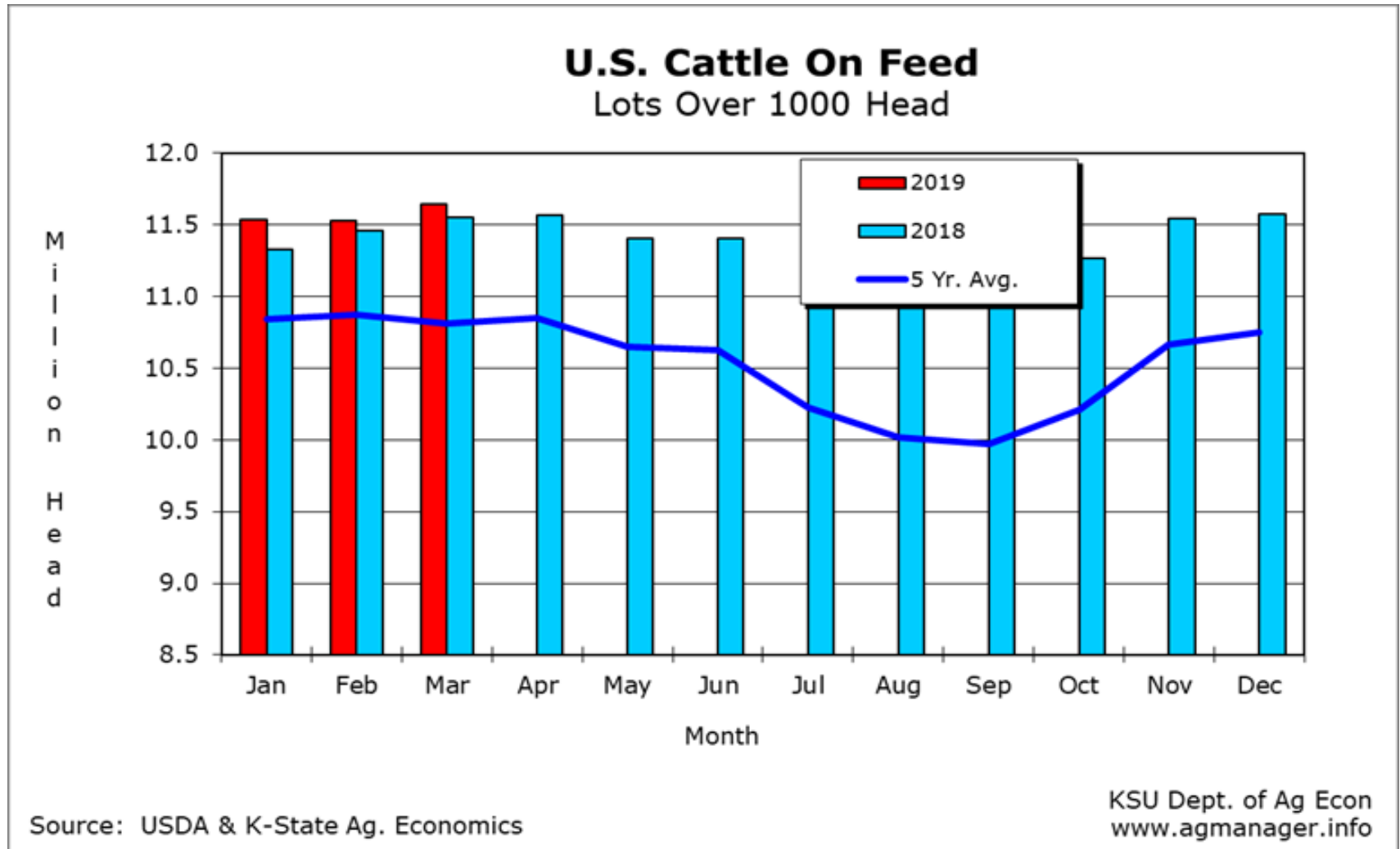
Livestock Markets



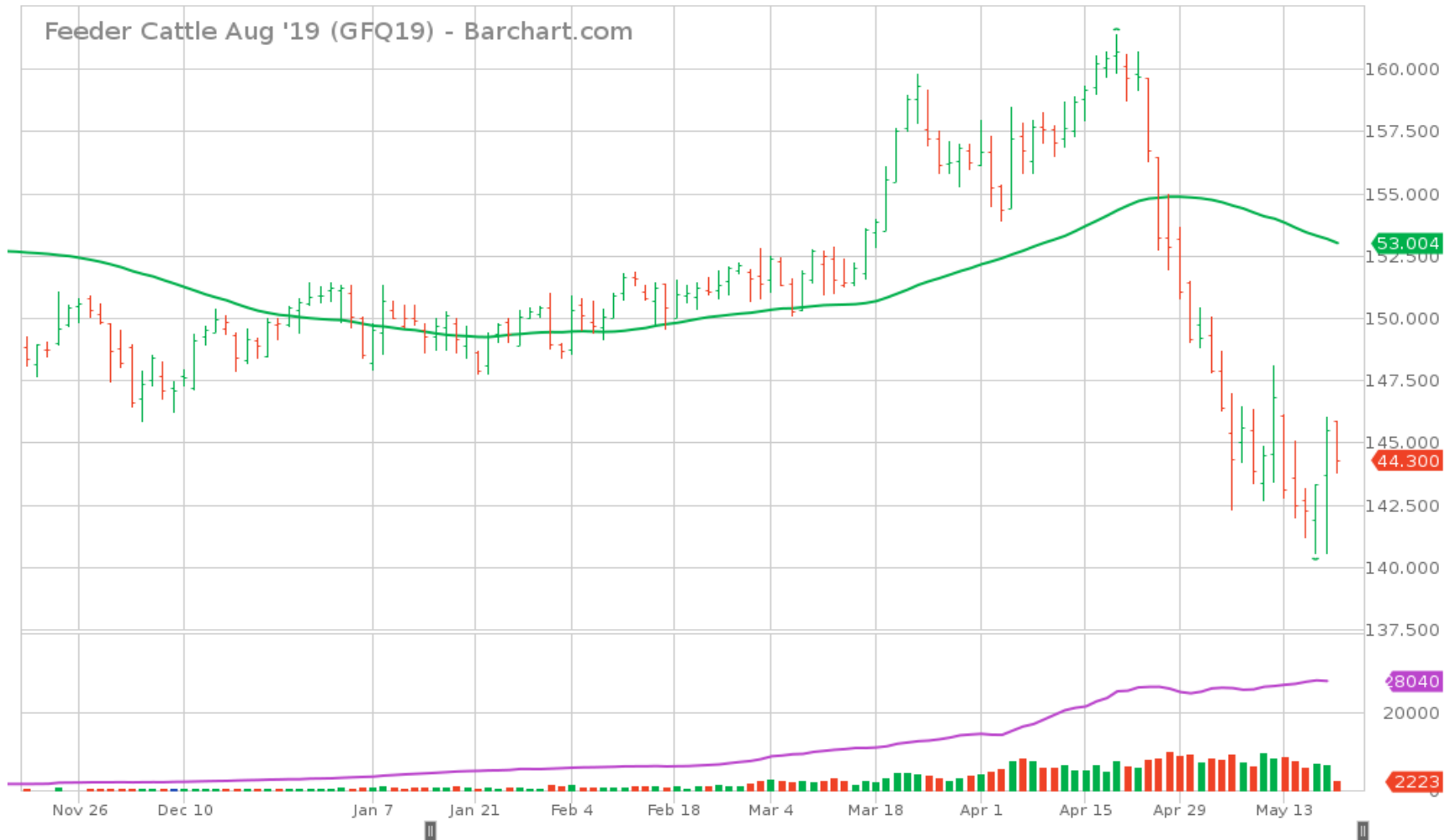
August 19 Live Cattle



Cattle on Feed



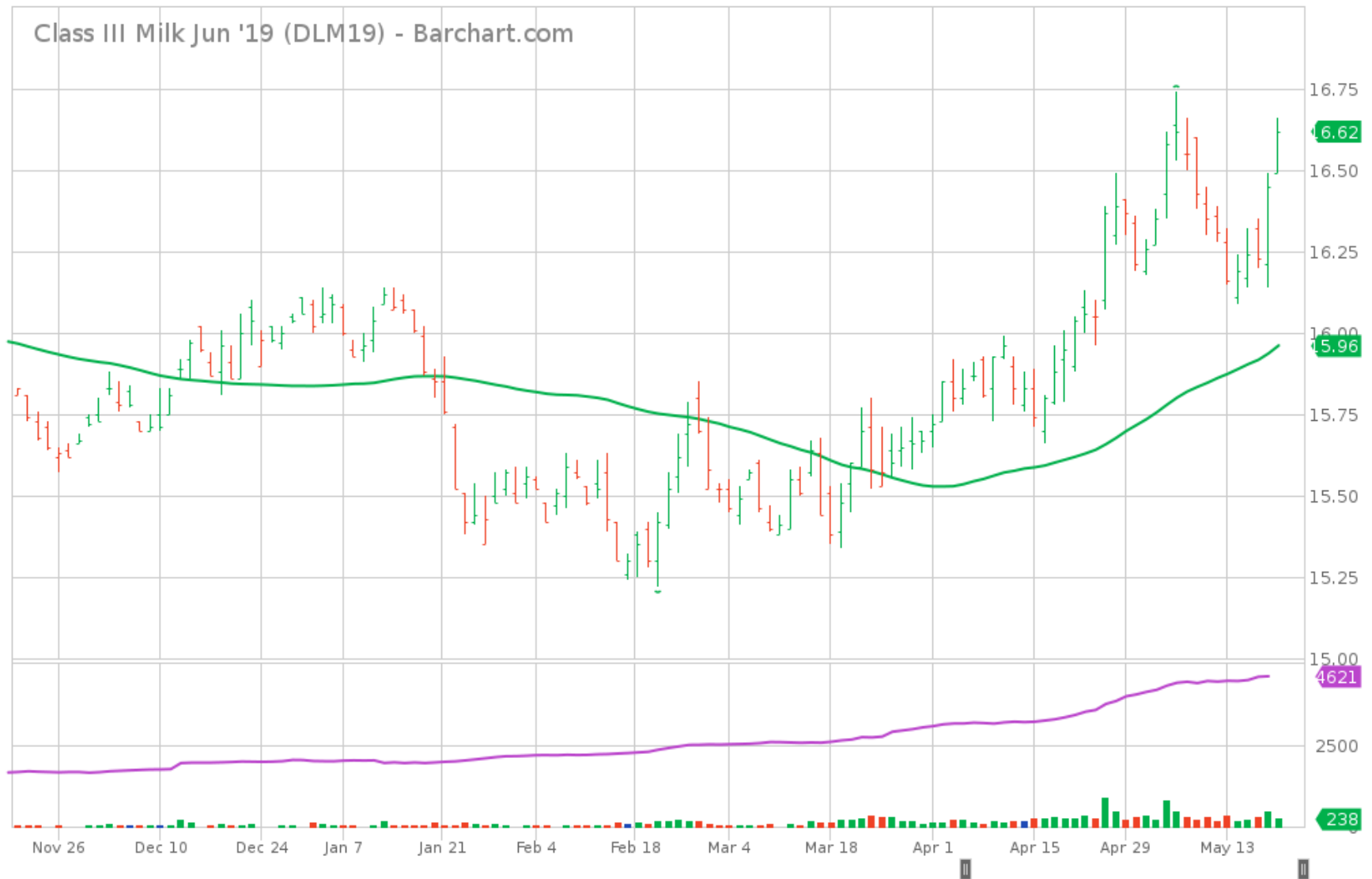
August 19 Feeder Cattle



Dairy Markets



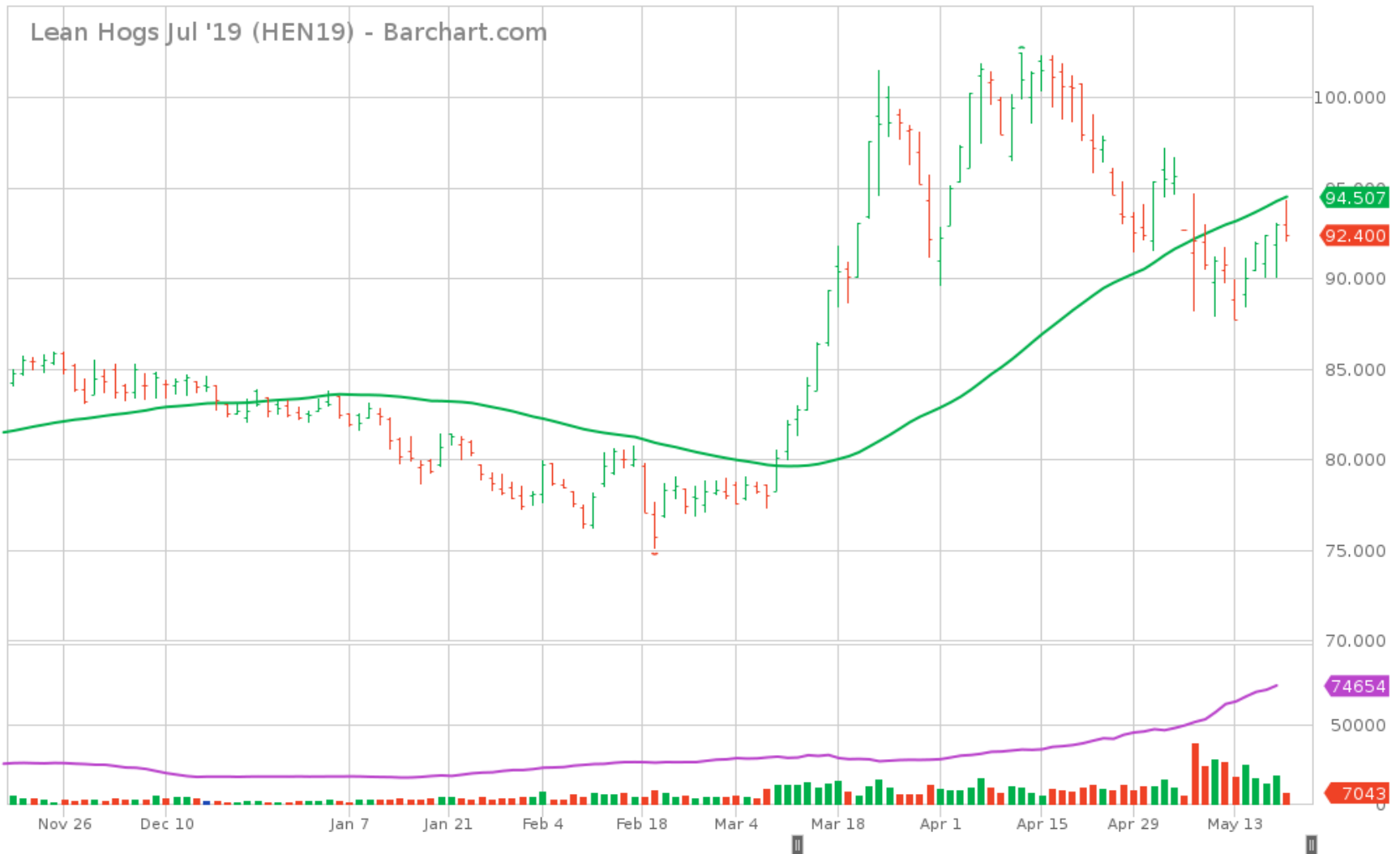
June 2019 Class III Milk



Pork Markets



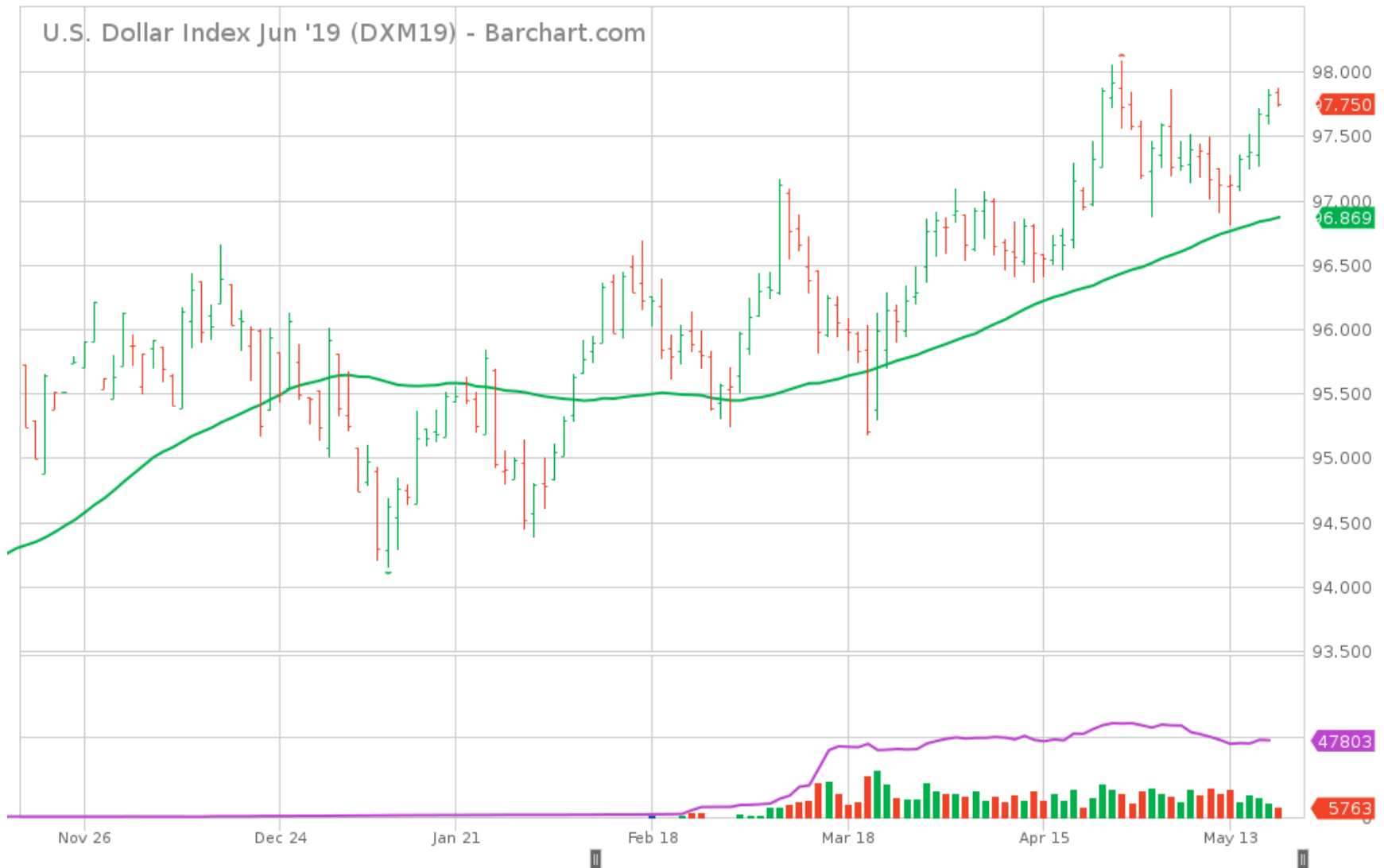
July 2019 Lean Hogs



Farm Bill



US Dollar Strength Continues



Small Things: Significant Risks



Food for Thought: Why do we do this?

- 7% Farmers have Marketing Plans
- Farmers store grain and use as their Checkbook
- Historically majority of Producers sell crop at bottom 1/3 of markets
- Markets want to force out inefficient Producers
 - Price below Cost of Production
 - 8 of 10 years Markets down | 2 of 10 years Markets bullish

“I can’t help you if You can’t help you”

What's on the Horizon?





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Industry Experts



Informative Sessions



Peer Networking

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