2019 Ag Commodity Markets and the Bumpy Road Ahead

Doug Johnson, Director, Sales

May 22, 2019
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
- Lending Cloud
- CECL
- Stress Testing

Integrated Tools
- Workflow
- Ticklers
- Data Integration
- Credit Bureaus
- Document Mgmt.
- Contact Mgmt.
- MARQ™
- Lender App

New
- Ag Peer Benchmarking
- Ag Scorecard
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

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

Wordpad for User Comments
**Ag Scorecard**

*Your Bank Risk Rating*

Score = 1.50

**2 Good**

*Moody's Ag Scorecard*

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

- **Score Now**
- **8.27 % PD Risk Rating: 13**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Ratio</td>
<td>0.91</td>
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<tr>
<td>Debt to Assets</td>
<td>51.29%</td>
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<tr>
<td>Term Debt Coverage Ratio</td>
<td>-0.36</td>
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<td>Interest Expense Ratio</td>
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<tr>
<td>Return on Assets</td>
<td>-3.98%</td>
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<table>
<thead>
<tr>
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<tr>
<td>Ag Sector Type</td>
<td>Crop</td>
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<tr>
<td>Industry Conditions</td>
<td>Declining</td>
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<tr>
<td>Diversification of Products</td>
<td>Non-Diversified</td>
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<tr>
<td>Years in Relationship</td>
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<td>Conduct of Account</td>
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<tr>
<td>Farm Conditions</td>
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<tr>
<td>Experience in Ag</td>
<td>3-15 Years</td>
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<tr>
<td>Financial Reporting and Formal Planning</td>
<td>Poor</td>
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<tr>
<td>Risk Management</td>
<td>Fair</td>
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</table>

*Wordpad for User Comments*
Presenters

Mike Pearson
Co-Host of “Ag News Daily”

Doug Johnson
Director – Sales Management
Moody’s Analytics Lending Cloud
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
Chinese Production
Protein Consumption

Meat consumption in the US

Average annual consumption per person, by type of meat

Source: United States Department for Agriculture / Our World in Data
Changing Asian Labor Market

China (economy-wide, data thru 2015)

Canada

Germany

South Korea

United States


(2000 = 100)
US Demand & Trends
US Demand & Trends

US All Wheat Planted Acreage

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.
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

In 2013 Brazil overtook the U.S. as the top soybean exporter

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

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

--- Large Speculators ---  -------- Commercial --------  --- Small Speculators ---  Open

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<tr>
<th>Date</th>
<th>Large Spec Long</th>
<th>Large Spec Short Bullish</th>
<th>Commercial Long</th>
<th>Commercial Short Bullish</th>
<th>Small Spec Long</th>
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<td>563</td>
<td>412.412</td>
<td>566.903</td>
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<td>672</td>
<td>789.199</td>
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<td>665</td>
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<td>566.664</td>
<td>40%</td>
<td>532</td>
<td>704.999</td>
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<td>528</td>
<td>373.631</td>
<td>537.520</td>
<td>40%</td>
<td>651</td>
<td>740.747</td>
<td>625.168</td>
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Thousands (K)
Soybean Markets
Soybean Commitment of Traders Report

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

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<th>Large Speculators</th>
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<th>Small Speculators</th>
<th>Open Interest</th>
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<td>243,957</td>
<td>342</td>
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<tr>
<td>05/07/19</td>
<td>479</td>
<td>138,532</td>
<td>256,043</td>
<td>352</td>
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<tr>
<td>05/14/19</td>
<td>472</td>
<td>139,293</td>
<td>262,598</td>
<td>352</td>
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Slow Exports Continue
Wheat Markets
September 19 Chicago Wheat
Livestock Markets
August 19 Live Cattle
Cattle on Feed

Source: USDA & K-State Ag. Economics

www.agmanager.info
August 19 Feeder Cattle
Dairy Markets
June 2019 Class III Milk

Class III Milk Jun '19 (DLM19) - Barchart.com

MOODY'S ANALYTICS

2019 Ag Commodity Markets and the Bumpy Road Ahead
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?
Strengthening our Lending Community Together!

Helping grow your lending business through education, innovation and community.

www.moodysanalytics.com/CALC19