

Commodity Market Outlook & 5 Tips to Improve Farm Profitability

Commodity Market Outlook

Join Doug Johnson from Moody's Analytics and Mike Pearson, TV Anchor of This Week in Agribusiness as they discuss the ag commodity outlook for 2021. Hear where there is potential in the market and how to take action.

Also, this is a great opportunity to create "value add" discussions with your producers on the importance of marketing and understanding the numbers. We'll provide 5 tips producers can use to improve their marketing and profitability skills:

1. Conduct a business IQ exercise
2. How to know the cost of production and your break-even
3. Tips for setting up a basic marketing plan
4. "What-if" scenarios to consider for quick and easy updates
5. Compare your operation KPI's to your peer groups



Mike Pearson
TV Anchor of
This Week in Agribusiness



Doug Johnson
Director - Ag Strategist
Moody's Analytics

Commodity Market Outlook

Agenda

- Introductions
- Market Outlook & Key Drivers
 - *Trade & Disruptors*
 - *Global Demand*
 - *Ag Commodity Outlook*
- 5 Tips for Marketing
 1. *Business IQ*
 2. *How to know cost of production and break-evens*
 3. *Tips for setting up a basic marketing plan*
 4. *“What-if” scenarios to consider for quick and easy updates*
 5. *Compare your operation KPI’s to your peer groups*
- Action Plans



Commodity Market Outlook

Moody's Analytics Lending Cloud



New:

**Ag Peer
Benchmarking**

**Ag
Scorecards**



General
Information



Balance Sheet



Income Expense



Tax Forms



Tasks



Service &
Monitoring



Reports



Credit Memo
Scoring



Workflow



Contact Management



Credit Bureaus



Core Systems

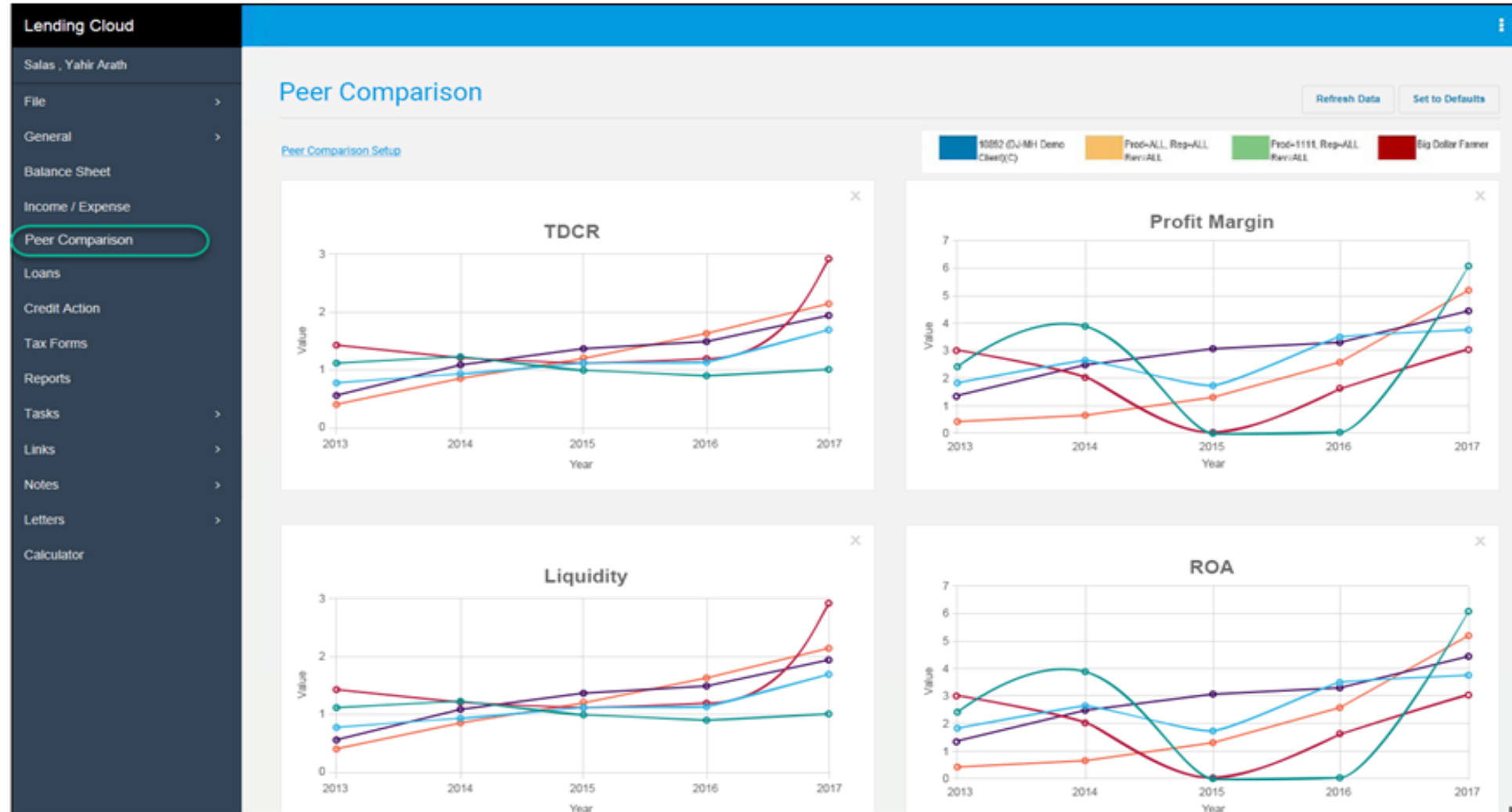


Loan Docs

Commodity Market Outlook

Ag Peer Benchmarking

- How Do I Compare
- Strengths
- Weaknesses
- Create Value



Commodity Market Outlook

Your Bank Risk Rating

Ag Scorecard

- 4 Models
 - Crop
 - Livestock
 - Feedlot
 - Dairy
- Compare Internally
- Model Confidence
- **New:** Quick Score

Score Now

Score = 1.50
REVIEW

2 Good

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

Financial Statements and Forms calculated from:
Balance Sheet: 03/26/2018 NPP Inc. / Exp.: Avg

Criteria		Criteria Score
Liquidity Ratio	0.91	1.00
Debt to Assets	51.29%	1.42
Term Debt Coverage Ratio	-0.36	3.48
Interest Expense Ratio	4.01%	0.86
Return on Assets	-3.90%	1.89
Ag Sector Type	Crop	-1.78
Industry Conditions	Declining	42.97
Diversification of Products	Non-Diversified	35.94
Years in Relationship	1-3 Years	35.94
Conduct of Account	Fair	1.38
Farm Conditions	Fair	18.75
Experience in Ag	3-15 Years	35.94
Financial Reporting and Formal Planning	Poor	68.75
Risk Management	Fair	-15.63

Comments

Format Size Ω Δ ✂ 📄 📁 ↶ ↷ B I U ☒

Wordpad for User Comments

Commodity Market Outlook

Presenters



Mike Pearson

TV Anchor of “This Week in Agribusiness”



Doug Johnson

Director – Ag. Strategist

Moody’s Analytics Lending Cloud

Commodity Market Outlook

Trade & Disruptors

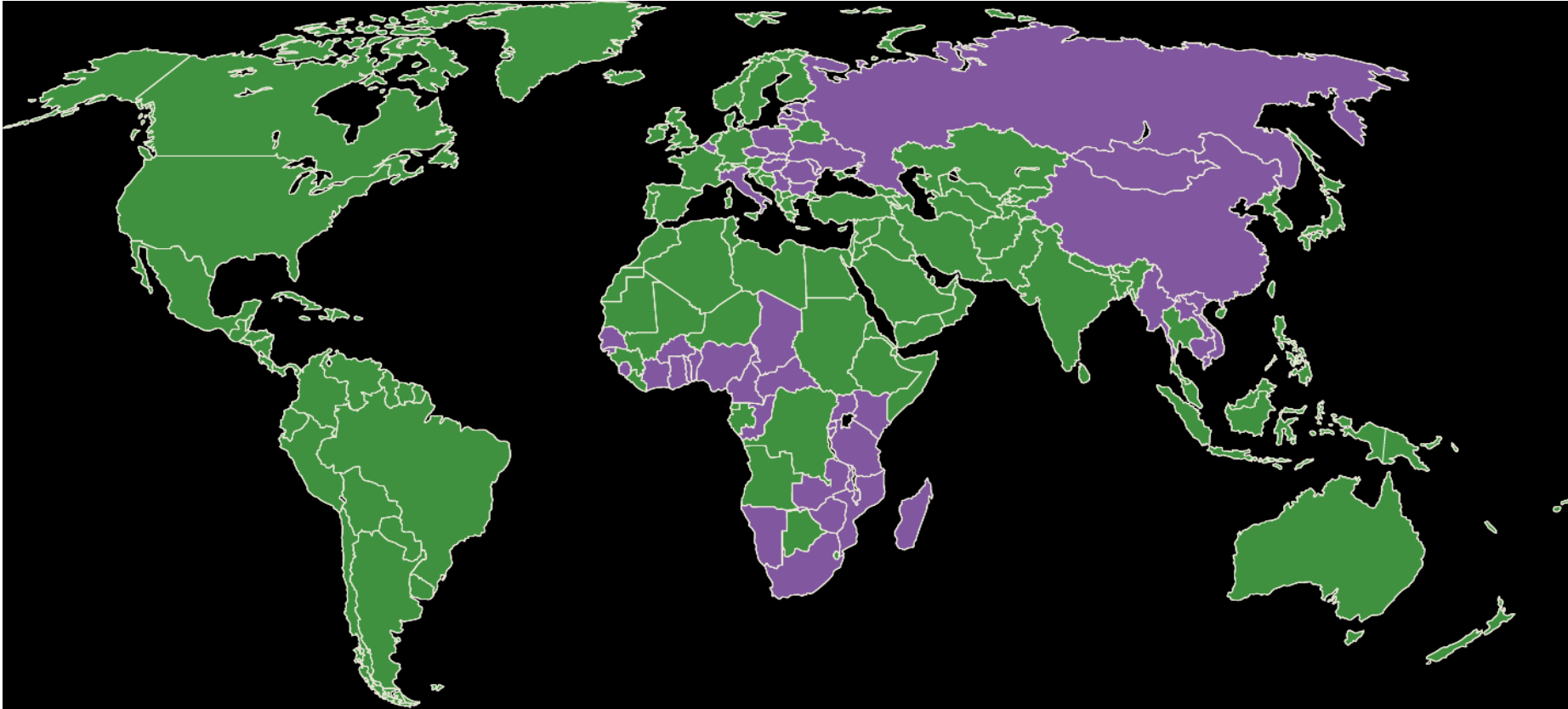


Commodity Market Outlook




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African Swine Fever and Other Animal Diseases



Commodity Market Outlook


How Will the Biden Administration Address Global Trade?

 The New York Times

Biden and China: Administration Rethinks Relations

The Biden administration is under intense pressure to maintain former President Donald J. Trump's curbs on China, even as it tries to develop a ...
5 days ago



 Associated Press

[AP] Biden treads carefully around Trump's combative trade policy

WASHINGTON (AP) — In his first weeks in office, President Joe Biden has wasted no time in dumping a batch of major Trump administration ...
2 weeks ago



 Council on Foreign Relations

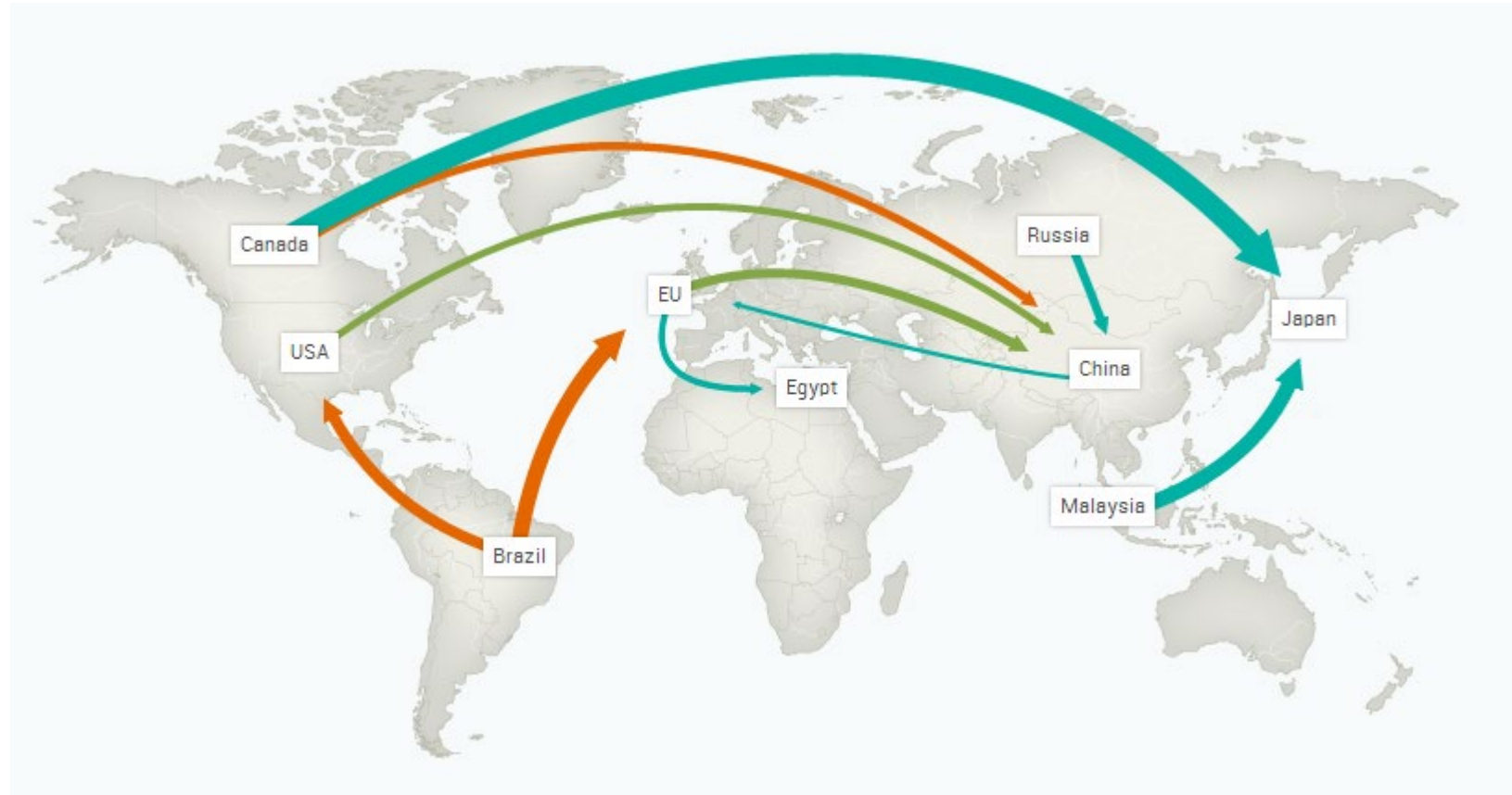
After Trump: What Will Biden Do on Trade?

President Trump disrupted U.S. trade policy in the name of better deals. President-Elect Biden proposes a combination of stronger domestic ...
1 month ago



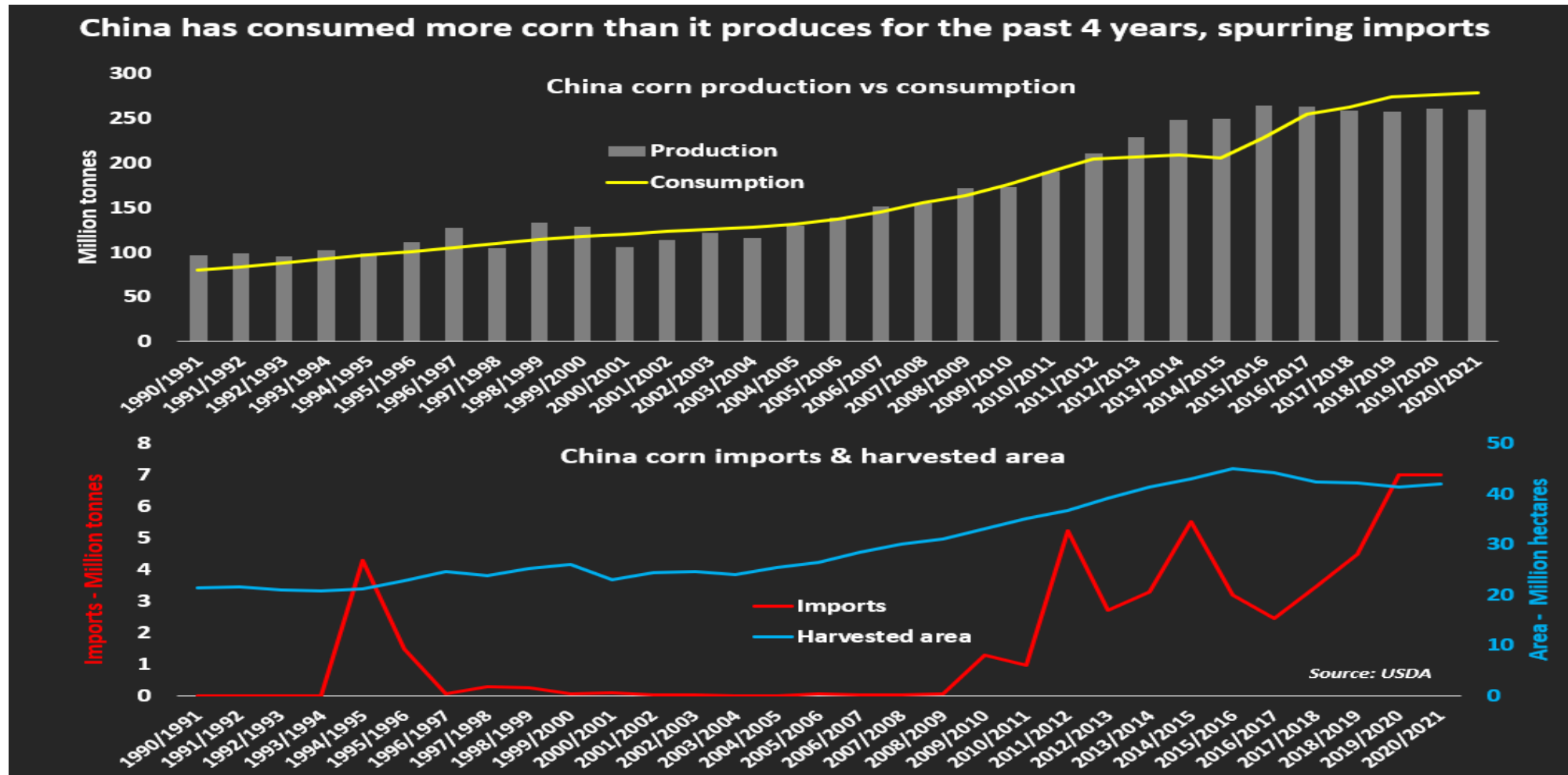
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Global Demand & Trends



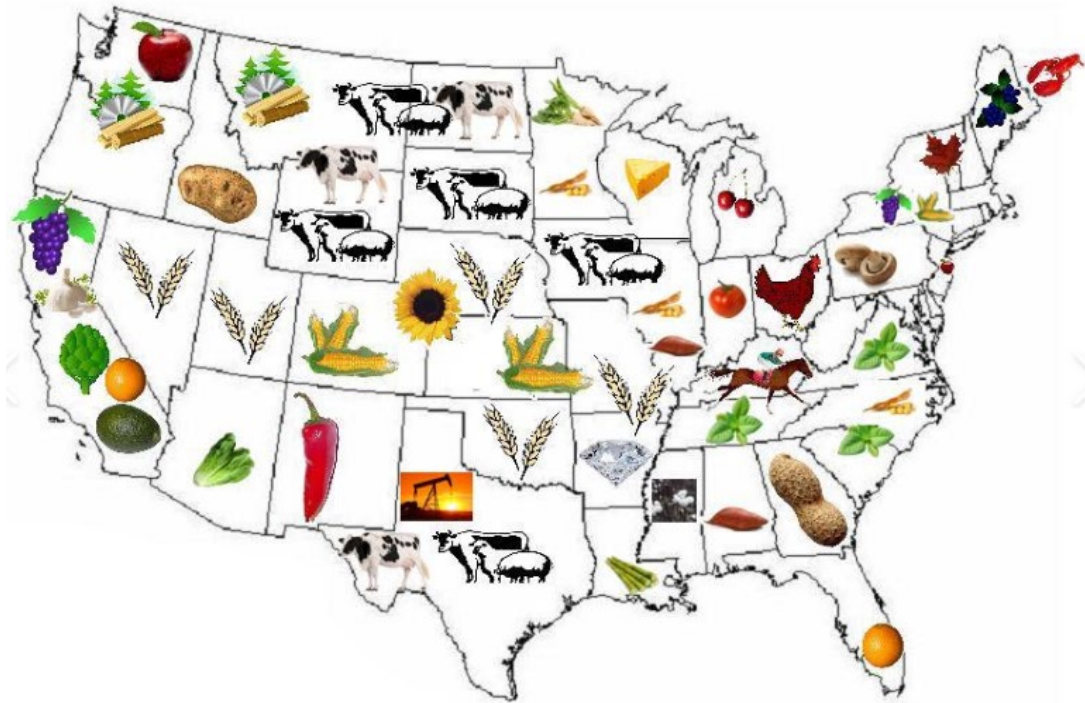
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Chinese Grain Demand



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Commodity Markets

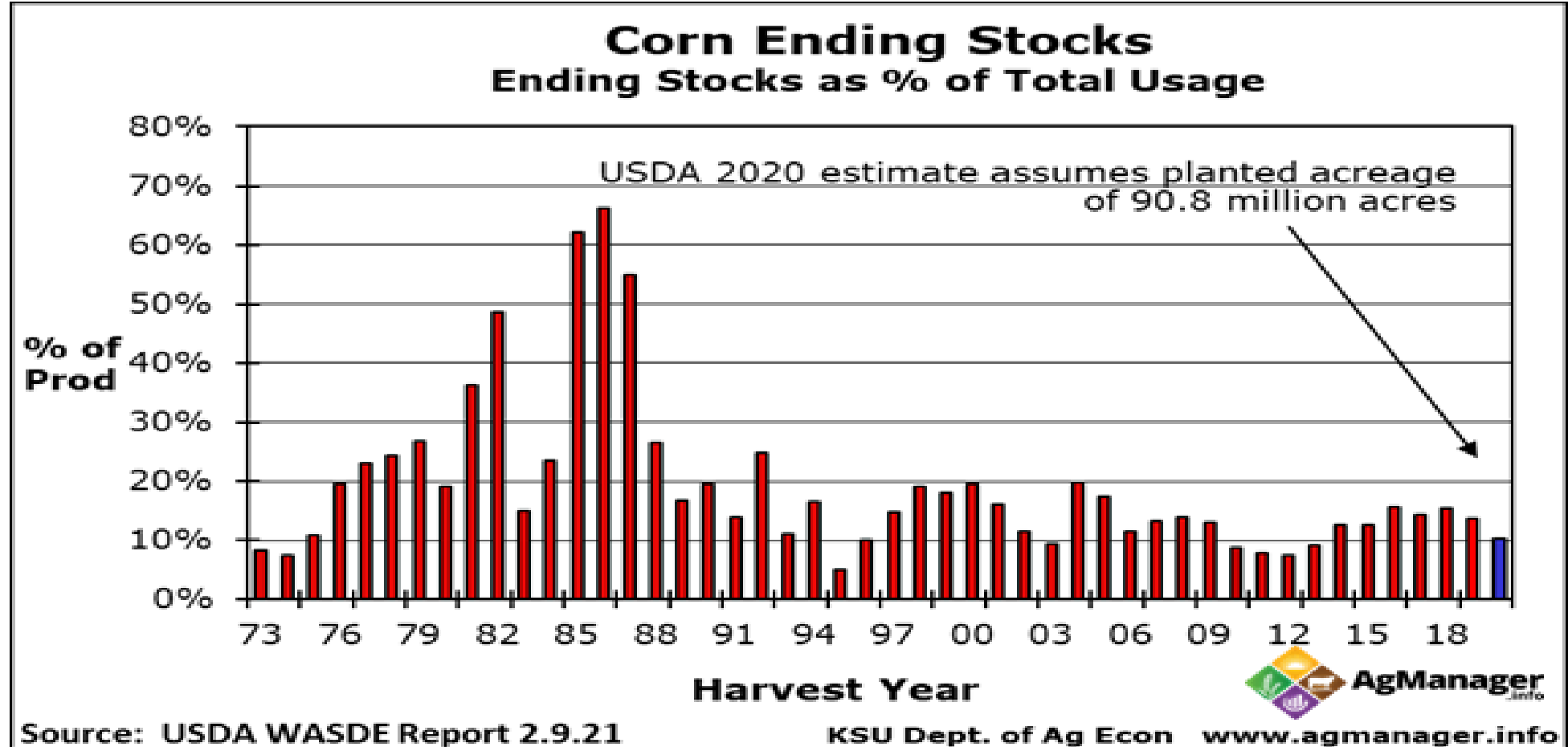


Commodity Market Outlook



Commodity Market Outlook

Current Corn Balance Sheet



Commodity Market Outlook

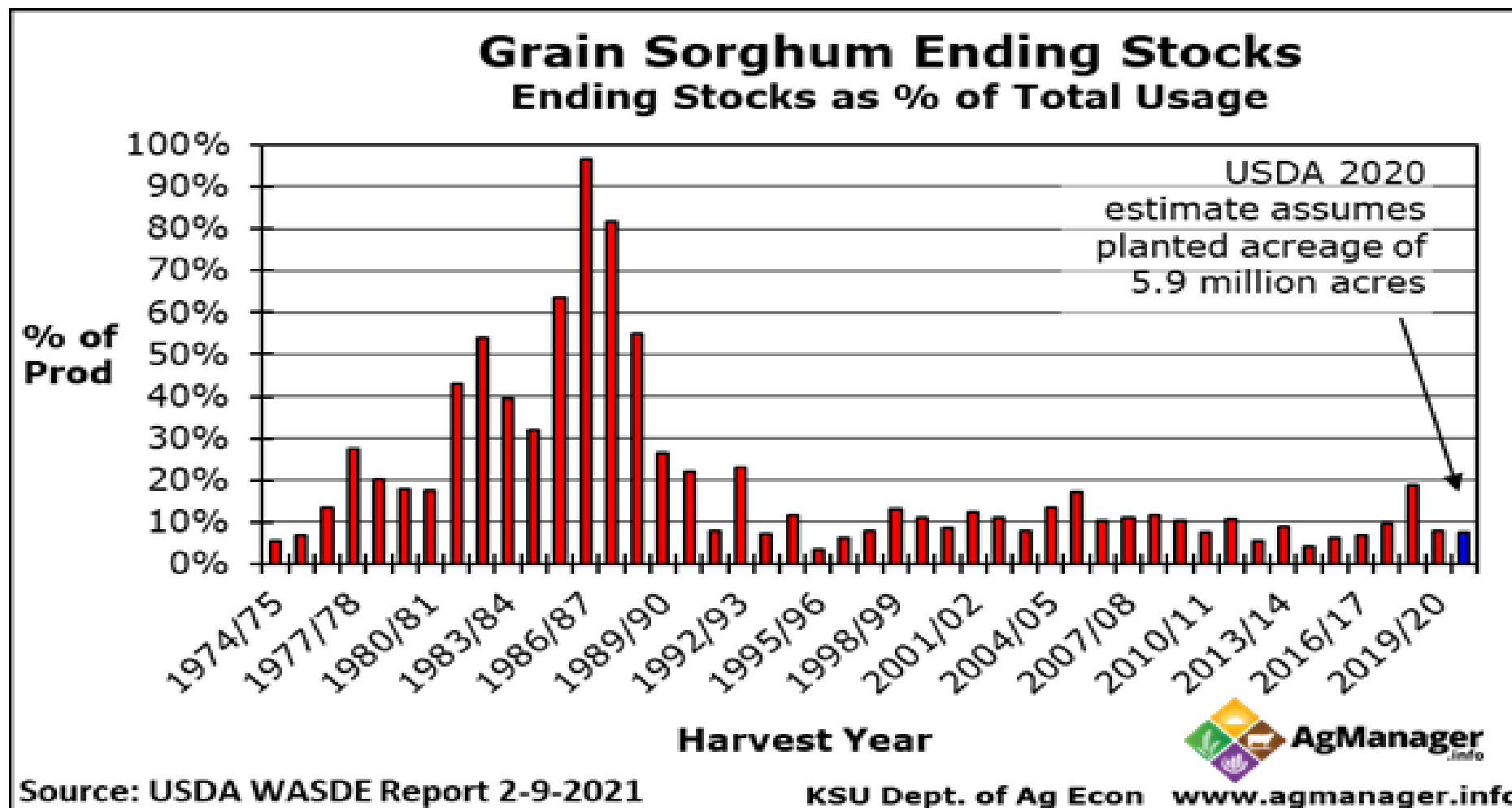
2021 Corn Price Moves

ZCK21-ZCZ21 - Spread Chart



Commodity Market Outlook

Sorghum Export Demand Has Been Strong

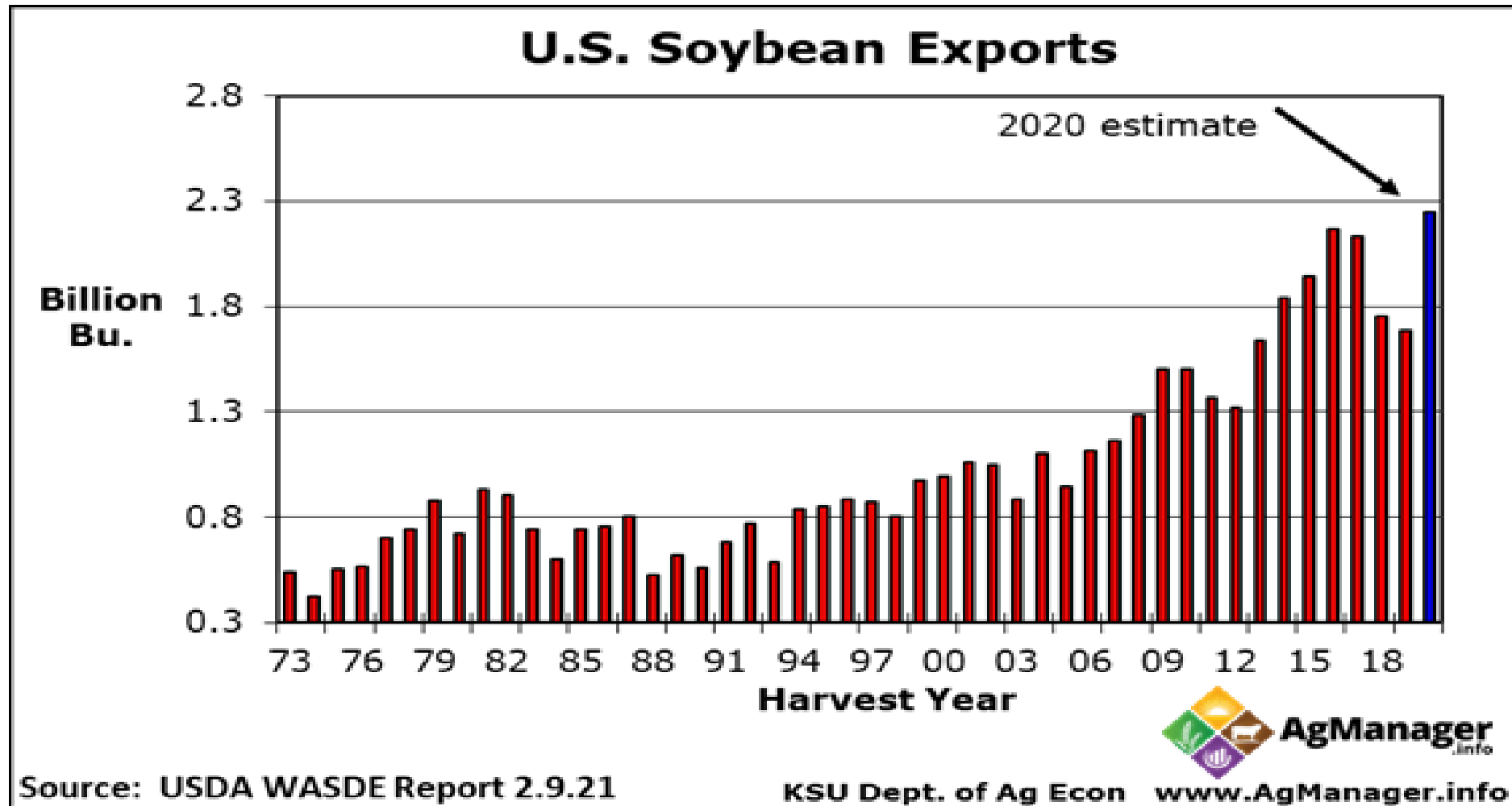


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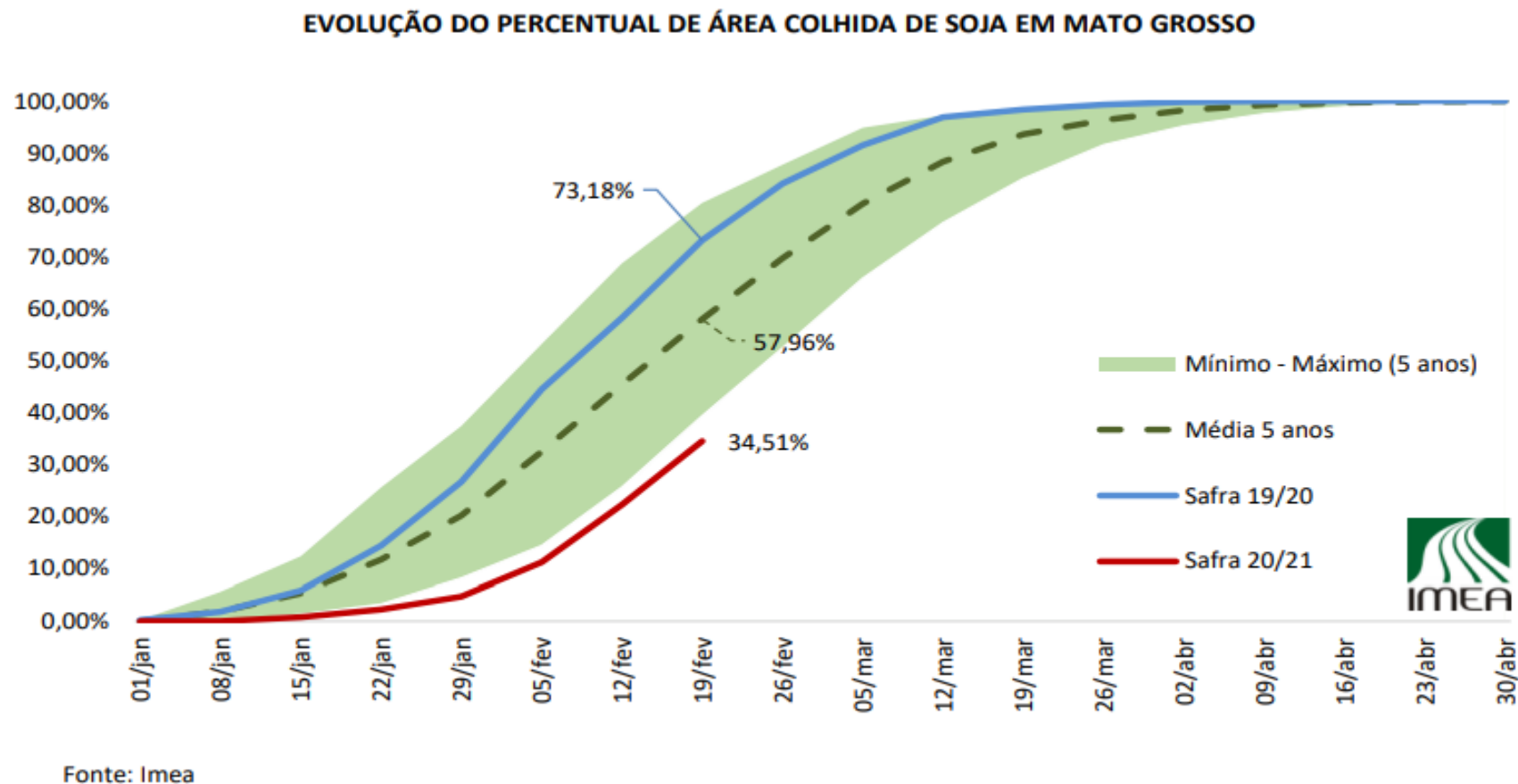
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Global Soybean Demand Stays Strong



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Brazil Soy Harvest Delays Continue

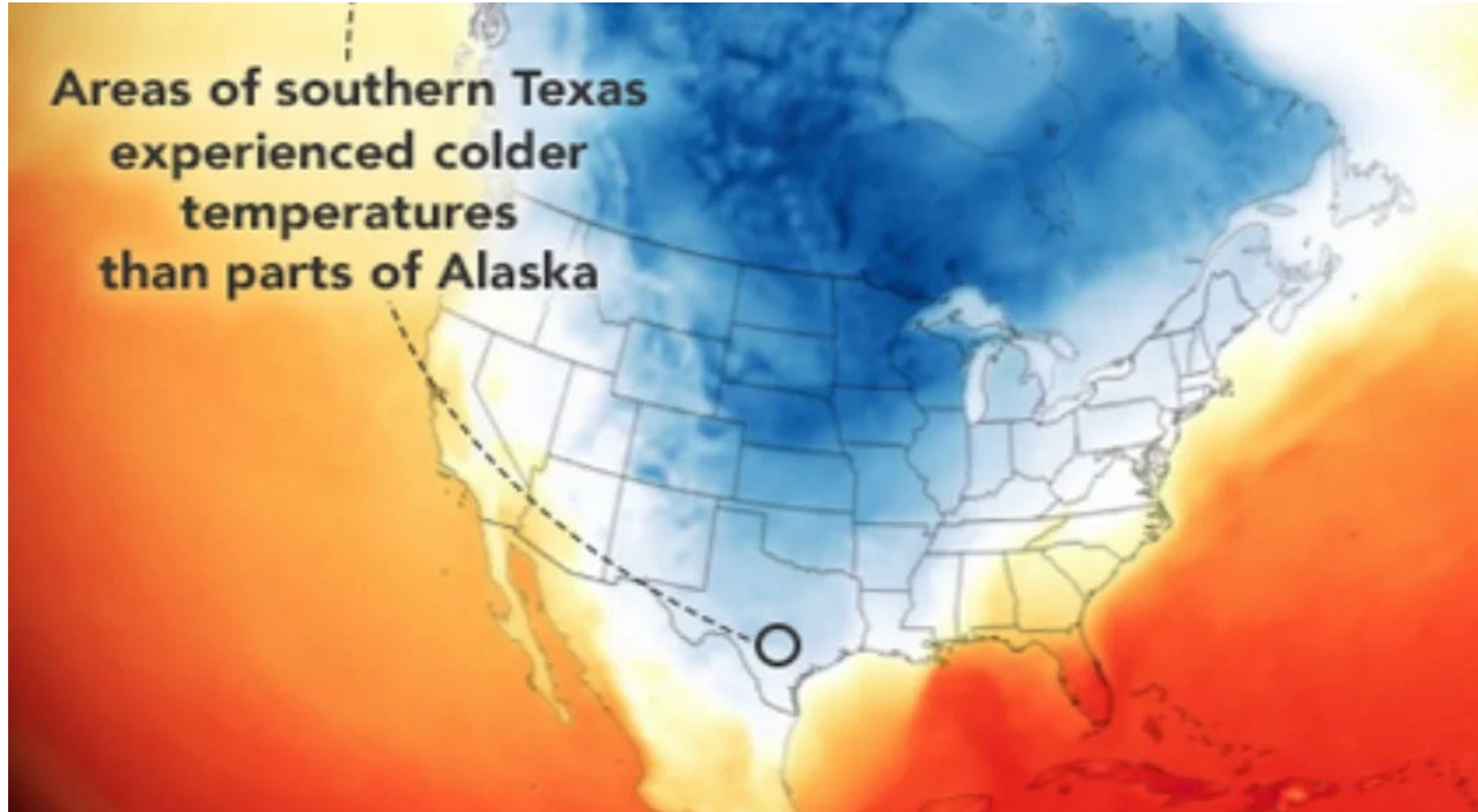


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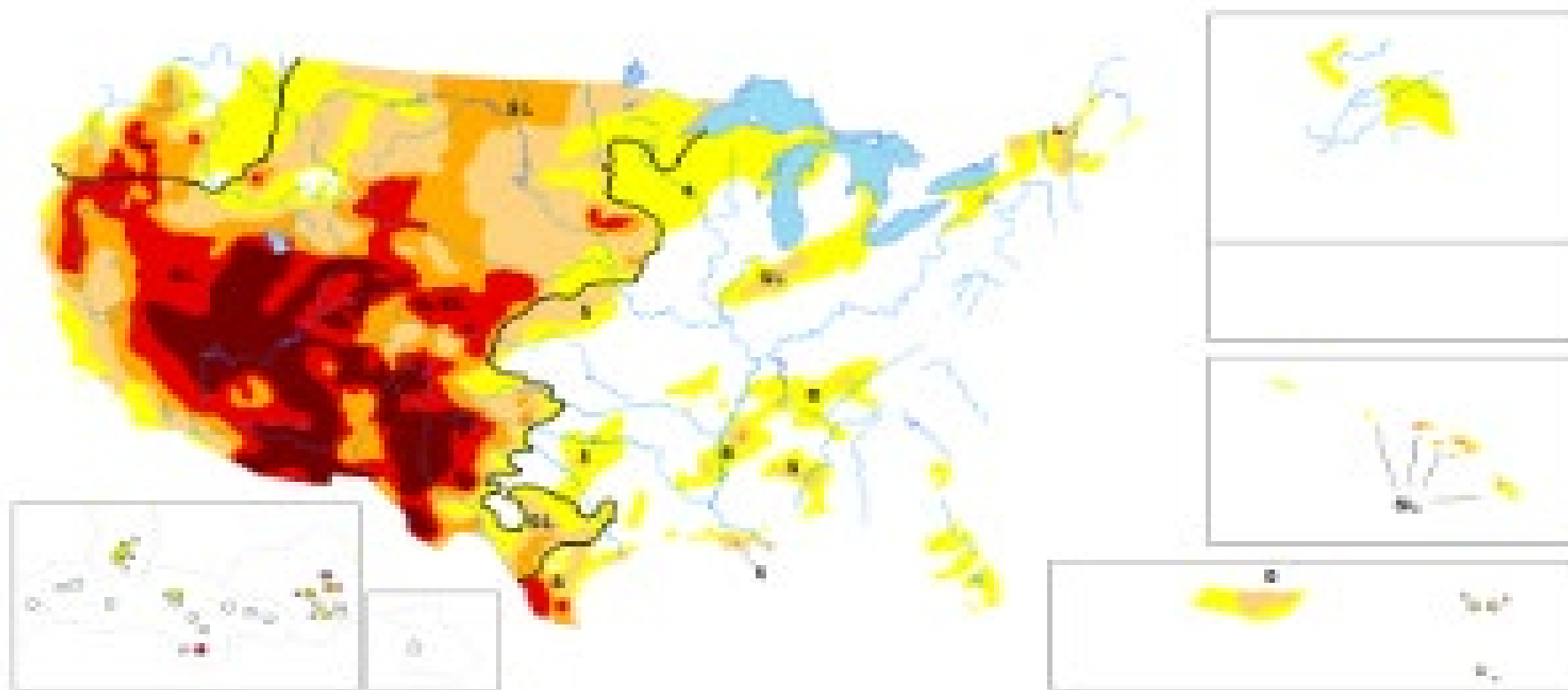
Drought and Cold Moving Wheat Prices



Commodity Market Outlook

Drought and Cold Moving Wheat Prices

Data valid: February 16, 2021

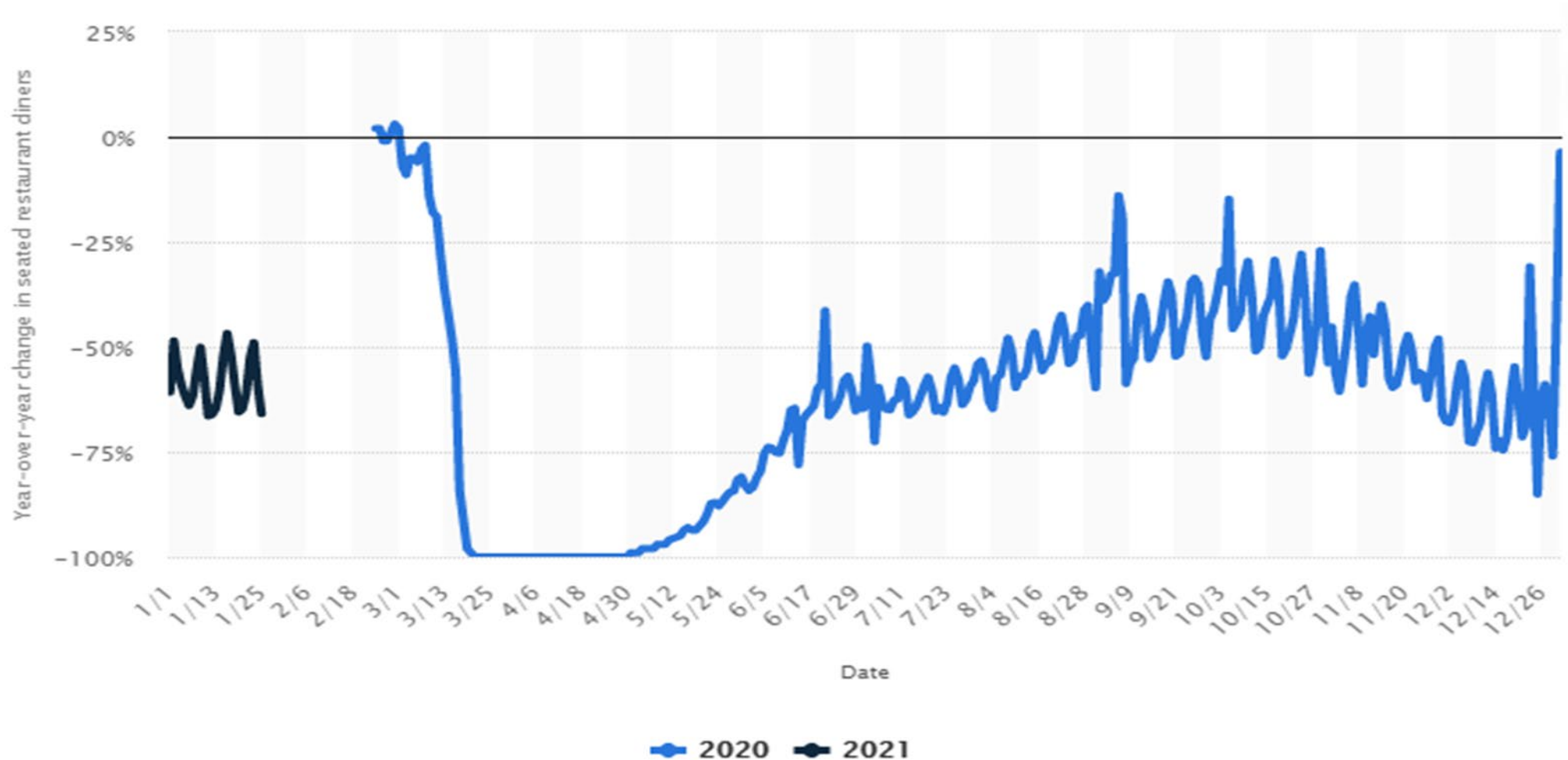


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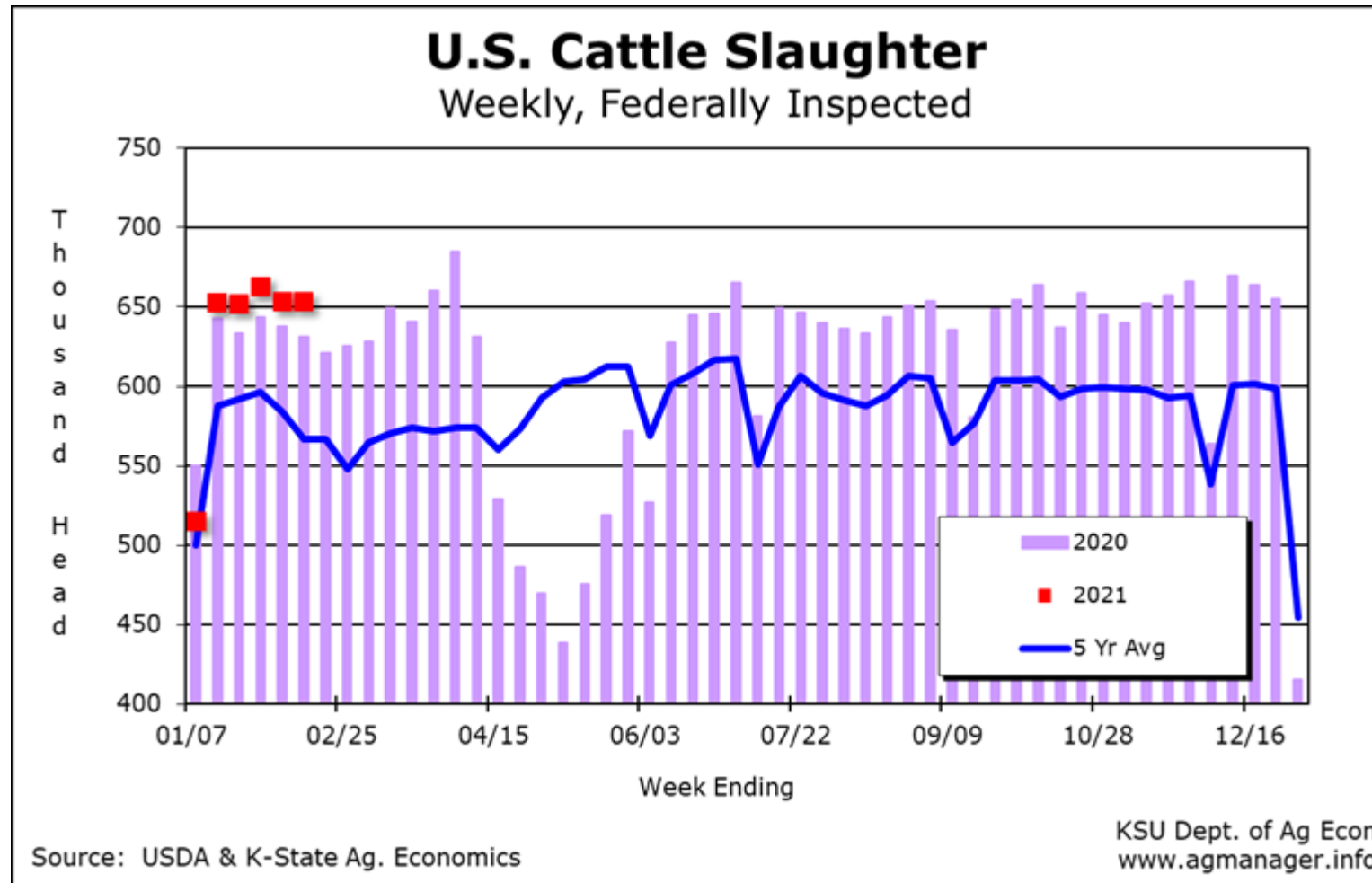
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Restaurant Demand Continues to be Tepid



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Total Cattle Slaughter Continues to Run Strong

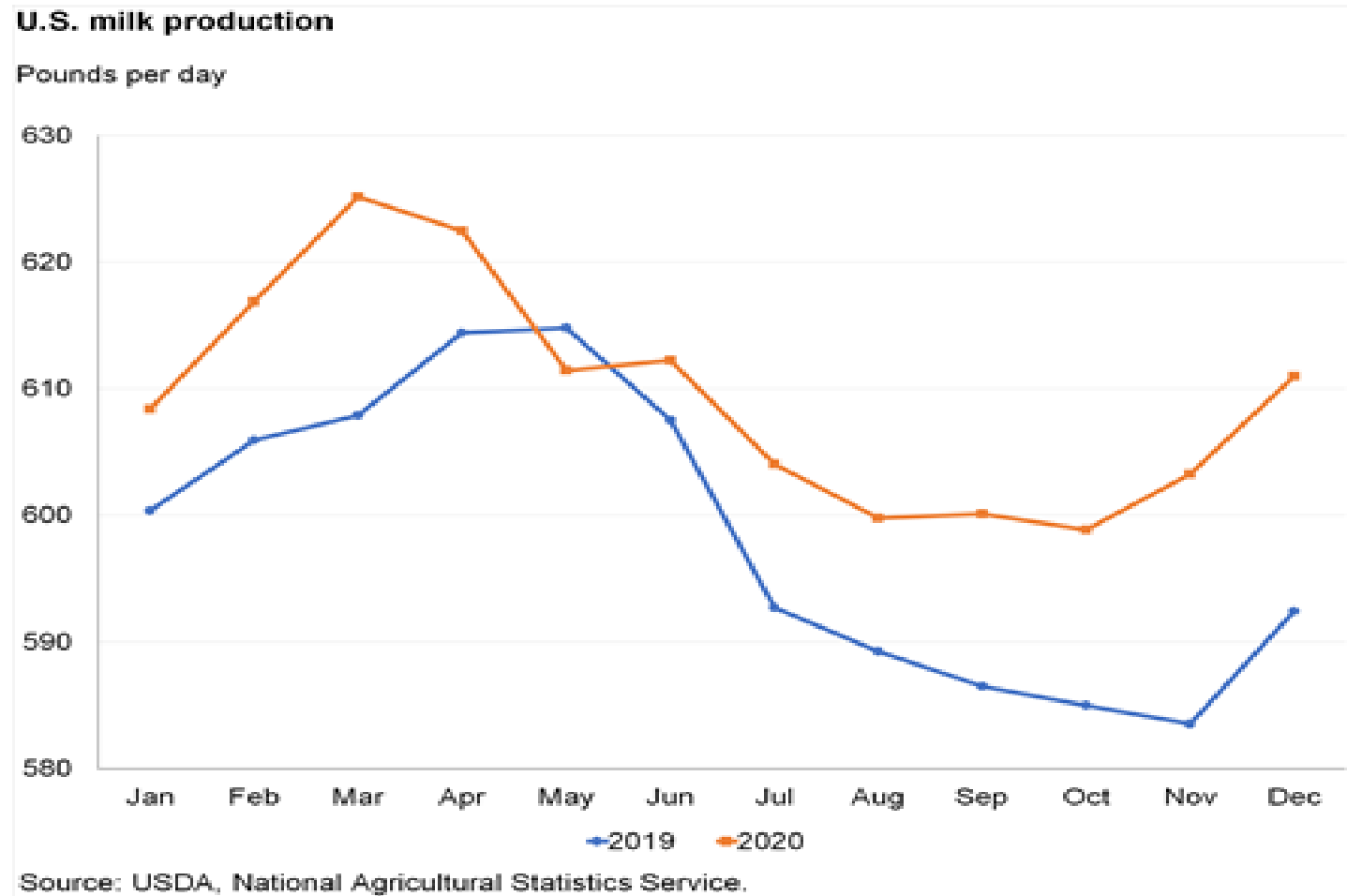


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Milk Production Rebounded in 2020

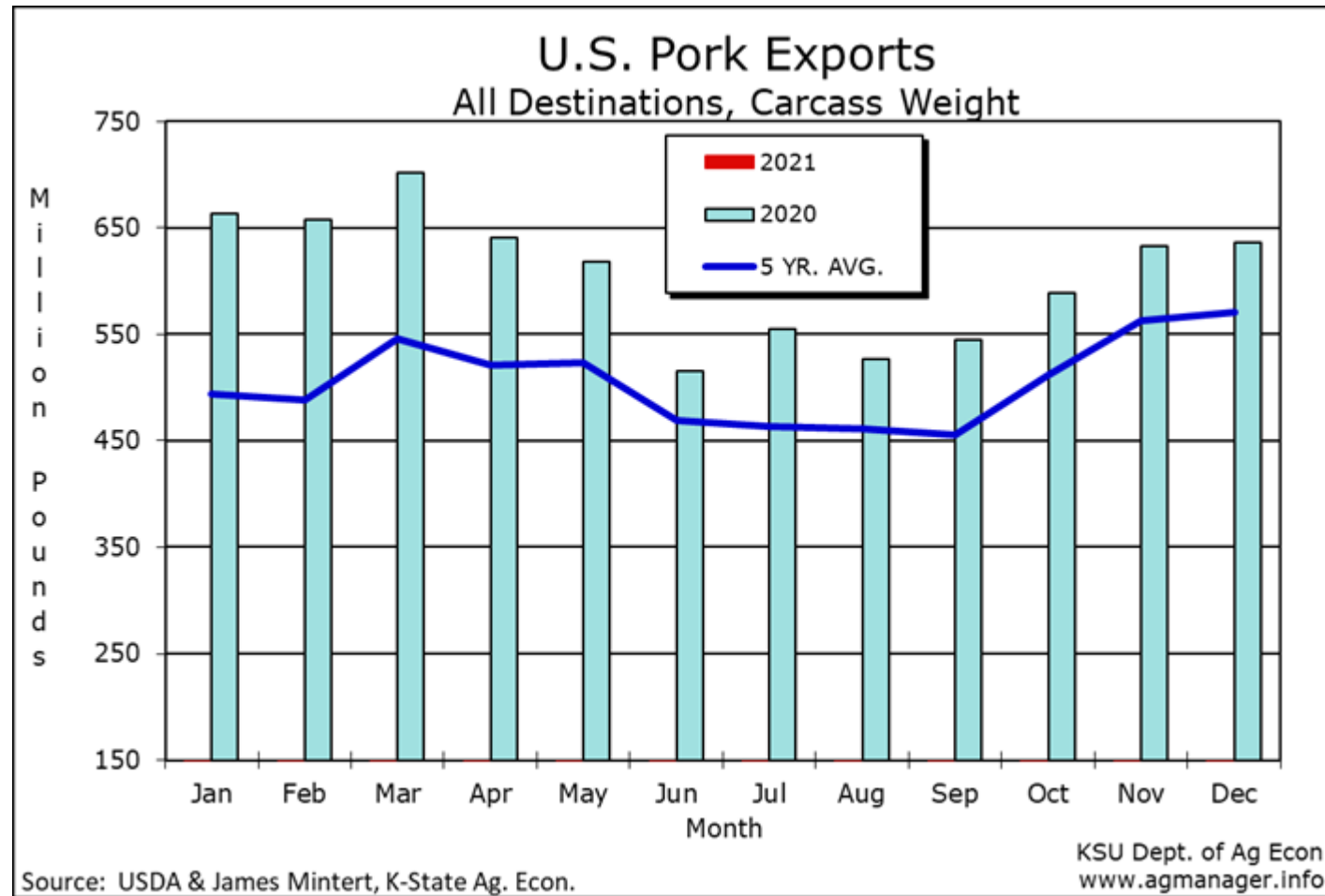


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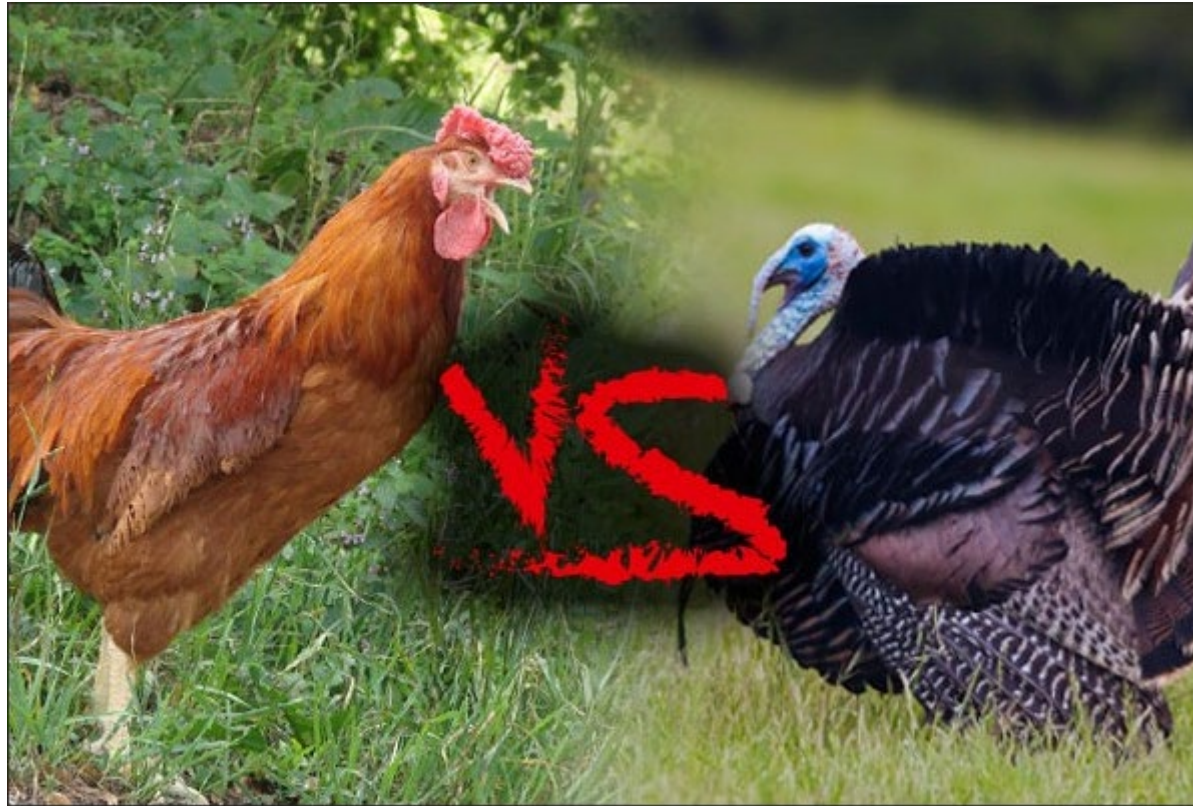


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Strong Pork Exports Saved the Bacon Industry

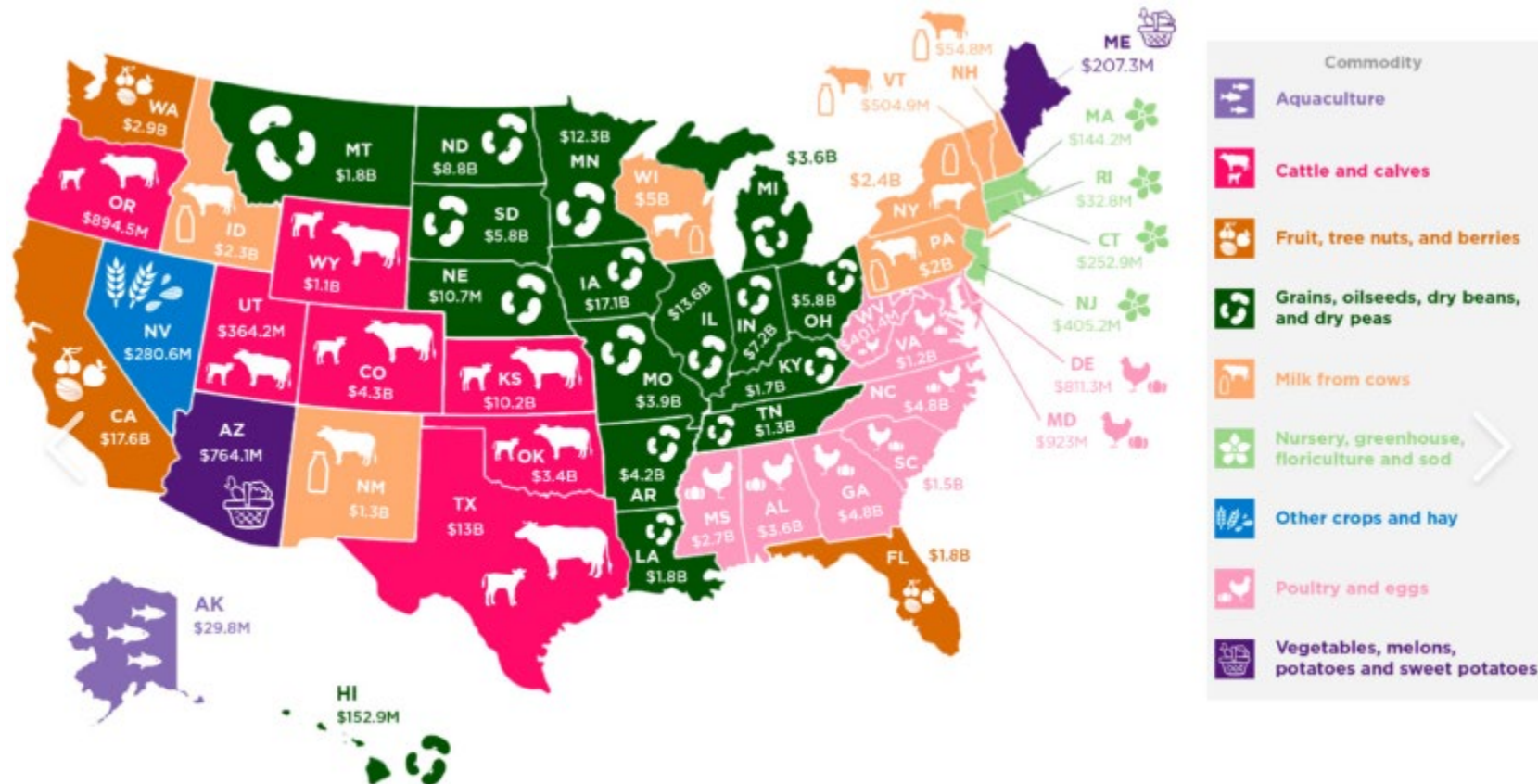


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Commodity Market Outlook

Other Commodities



Article & Sources:
<https://www.howmuch.net/articles/the-most-valuable-agricultural-commodity-per-each-state>
USDA - United States Department of Agriculture - <https://www.nass.usda.gov/>

howmuch.net

Commodity Market Outlook

Cotton Prices Afford Some Growers an Option

US Cotton #2 Futures Overview



Commodity Market Outlook

How Can You Make Your
Farm Successful **Long Term?**

Commodity Market Outlook

Most regrets don't occur on the
Production side

-

Most regrets occur on the
Marketing side

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During the 1980's we had a weeding out of
Marginal Producers

Today's we're experiencing a weeding out of
Marginal Managers

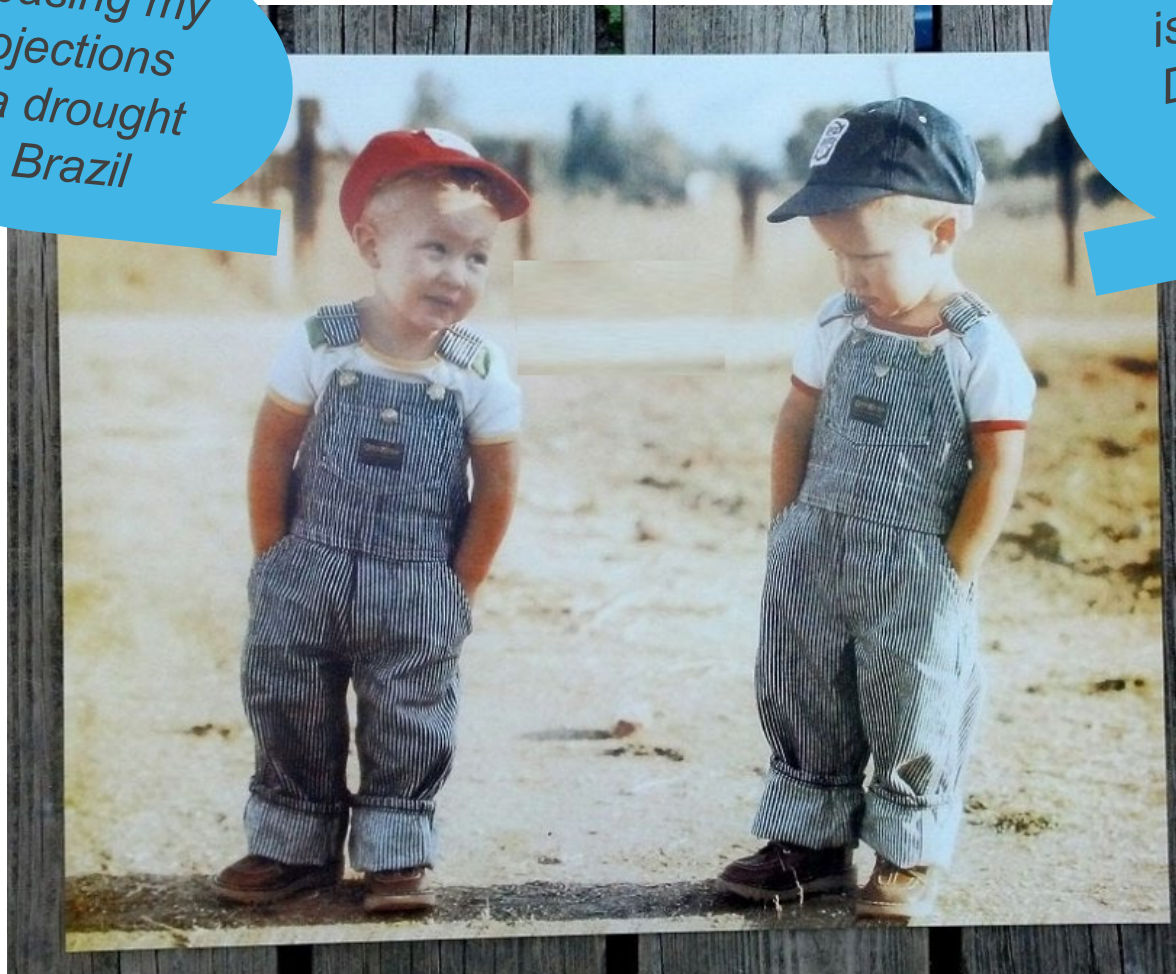
Commodity Market Outlook

Marketing Humor

Use this in the coffee shop

I'm basing my Projections on a drought in Brazil

So your Marketing Plan is relying on a Drought in the Amazon rainforest?



Commodity Market Outlook

Points to Think About

- <10% Farmers have & execute on Marketing Plans
- Historically majority sells crop at bottom 1/3 of markets
- Stored grain should not be the Checkbook
- Home Run Mentality: “I’ll make it back next year”
- **Remember:** It takes 2 generations to build a farm. 1 to tear it down.

Commodity Market Outlook

What's the Difference Between a Top Producer vs. Bottom

5%

Top Producers:

- Focus on Base Hits – NOT Home Runs
- Obtain Consistent Marginal Gains
- Know **Marketing** should be **as strong** as **Production**
- They Create – Document - Execute – Adjust

Commodity Market Outlook

Everyone Starts At A Different Place

—

Don't Look At Your Neighbor

-

Just Look In The Mirror

-

Keep This Easy

Here's How to Start Your Journey



You Sacrifice for your Farm

-

Need to Ensure the Sacrifice
& Sweat are realized

1

Business IQ

Commodity Market Outlook

Business IQ: Management Factors

- Self-Assessment
- Is the **Business** side as good as the **Production** side
- **Goals** to Improve
- **Strengths** to Maintain

Business IQ: Management Factors Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent

*Extra Points:

- Progressive Business may receive 4 points for #2,6,7,8,14
 - Struggling Business Attempting Turnaround may receive 4 points for #3,5,8,11,12
 (See pg. 2 for Progressive and Attempting Turnaround)

Score

Overall Analysis

35-54	Strong management rating, strong potential for resiliency & agility
24-34	Moderate management rating, potential issues in resiliency & agility
<24	Weak management rating, potential major issues in resiliency & agility

2021 Version - Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, in cooperation with Dr. Alex White, Dairy Science, Virginia Tech

Source: Dr. David M. Kohl, Professor Emeritus, Virginia Tech

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How to know Break-Even

Commodity Market Outlook

How to Know Cost of Production & Break-Evens

- **Basic Level Break-Even Analysis:**
 - Stress Test Projections with % change overall
 - Baseline
 - Best Case
 - Worst Case
- **Intermediate Level Break-Even Analysis:**
 - Cost of Production by Commodity
 - Use County Averages
 - Apply average to Commodities (not field by field level)
 - Quick & Easy to keep updated: Markets change – You Adjust
- **Advanced Level Break-Even Analysis:**
 - Cost of Production by Commodity by Field
 - Input actuals for most accurate Break-Even Analysis
 - Paying too much Cash Rent? | Other Commodities more Profitable?
 - What's my Break-Even: When should I sell | When should I hold

Are You Better At The
Production Side

- Or -

Are You Better At The
Marketing Side

3

Marketing Plan Setup Tips

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Tips to Setup a Marketing Plan

- Define Your Goals
 - What Can You Do Today
 - Understand Your Skills
 - Where Do You Want to Get To
 - Commodity Level
 - Field Level
 - When to Market | What Farm is Losing Money
 - What's Preventing You From Getting There
 - Is it Software Skills
 - It is Time
 - Is it an Attitude
 - Who's Your Resources
 - Lender: They see the best & worst... Ask What's Working
 - Extension Agent & Universities
 - Marketing Consultants
- Keep It Easy But Keep It Current
 - It's Not A Plan If You File It Away

If You Don't Start
—
Then You've Already
Accomplished Your Journey

4

Easy “What-If” Scenarios

Commodity Market Outlook

60 Second Stress Test

Income / Expense Trends

Agriculture

**Borrower
Projection**



1/1/2016
12/31/2016
Borrower
Projection

4 Yr.
Average

Best



1/1/2016
12/31/2016
Stress Test-Best

Worst



1/1/2016
12/31/2016
Stress Test-Worst

1/1/2015
12/31/2015
Tax Return

1/1/2014
12/31/2014
Tax Return

1/1/2013
12/31/2013
Tax Return

Operating Income

Crop Sales	4,725,378	2,742,669	2,692,669	200,000	2,555,111	4,633,505	3,582,058
Livestock Sales	225,625	621,396	745,675	0	856,900	878,185	750,500
Poultry Sales	0	25,000	40,543	100,000	0	0	0
Dairy Livestock Sales	220,000	220,121	258,494	0	321,561	246,411	312,511
Example of a SubTotal	220,000	245,121	299,037	100,000	321,561	246,411	312,511
Dairy Cull-Cows - Form #4797	0	0	0	0	0	0	0
Milk Sales	3,205,000	1,011,158	1,213,390	0	1,202,611	1,761,511	1,080,511
Ag Program Pmts	50,000	50,000	38,000	50,000	50,000	50,000	50,000
Crop Insurance Proceeds	15,000	56,575	13,500	50,000	26,300	65,000	85,000
Custom Hire Income	0	25,000	0	100,000	0	0	0
Other Income	100,000	230,246	100,000	620,982	100,000	100,000	100,000
Coop Distributions	0	12,500	0	50,000	0	0	0
Total Operating Income	8,541,003	4,994,664	5,102,271	1,170,982	5,112,483	7,734,612	5,960,580
Livestock Sal:Purch For Resale	0	0	0	0	0	0	0
Purchases for Resale	0	23,975	0	95,900	0	0	0
Purch. For Resale Livestock Sales	463,134	0	0	0	0	0	0
Purch. For Resale Dairy Livestock Sales	0	0	0	0	0	0	0

Commodity Market Outlook

Enterprise Analysis

Breakeven Analysis

Producer Projection

Margin
Breakeven

Scenario 1:

Yield 
Price 

Scenario 2:

Yield 
Price 

MASTER: Gold Way Farms-DJ(C) Corn - Irrigated

[Copy Enterprise Defaults](#)

Income	Exp.	Margin	B/E
806,400	1,061,120	-254,720	4.145

	Acres	Yield	% Share	Units	Per Unit	Sales
<input type="radio"/> Projected	1,280	220	100	281,600	4.3287	1,218,962
<input type="radio"/> What-If	<input type="text" value="1,280"/>	<input type="text" value="230"/>	<input type="text" value="100"/>	294,400	<input type="text" value="3.05"/>	897,920
<input checked="" type="radio"/> What-If	<input type="text" value="1,280"/>	<input type="text" value="200"/>	<input type="text" value="100"/>	256,000	<input type="text" value="3.15"/>	806,400

Type	Description	Per A. or U.	%	Total	% C.F.
-- Add New --	<input type="text"/>	<input type="text" value="0"/>	<input type="text" value="100"/>	<input type="text" value="0"/>	<input type="text" value="100"/>

<input checked="" type="checkbox"/>	Type	Description	Calc Basis	Exp. U.	Per Exp. U.	Per A. or U.	%	Total	% C.F.	C.F.
<input type="checkbox"/>	Chemicals	Herbicide	Acre			62	100	79,360	0	0
<input type="checkbox"/>	Chemicals	Pesticide	Acre			65	100	83,200	0	0
<input type="checkbox"/>	Gas / Fuel / Oil	Tractor Fuel & C	Acre			75	100	96,000	0	0
<input type="checkbox"/>	Insurance Exp.	Crop Insurance	Acre			38	100	48,640	0	0
<input type="checkbox"/>	Rent - Land / Animals	Land Rent	Acre			250	100	320,000	0	0

5

Compare KPI's to Peers

Commodity Market Outlook

FFSC Ratios

Education:
*Understand what
Lender looks at
and why*

Current Ratio

This ratio (usually expressed as XX:1) indicates the extent to which current farm assets, if liquidated, would cover current farm liabilities. The higher the ratio, the greater the liquidity.

Computation:

Total current farm assets
÷ Total current farm liabilities
= Current Ratio

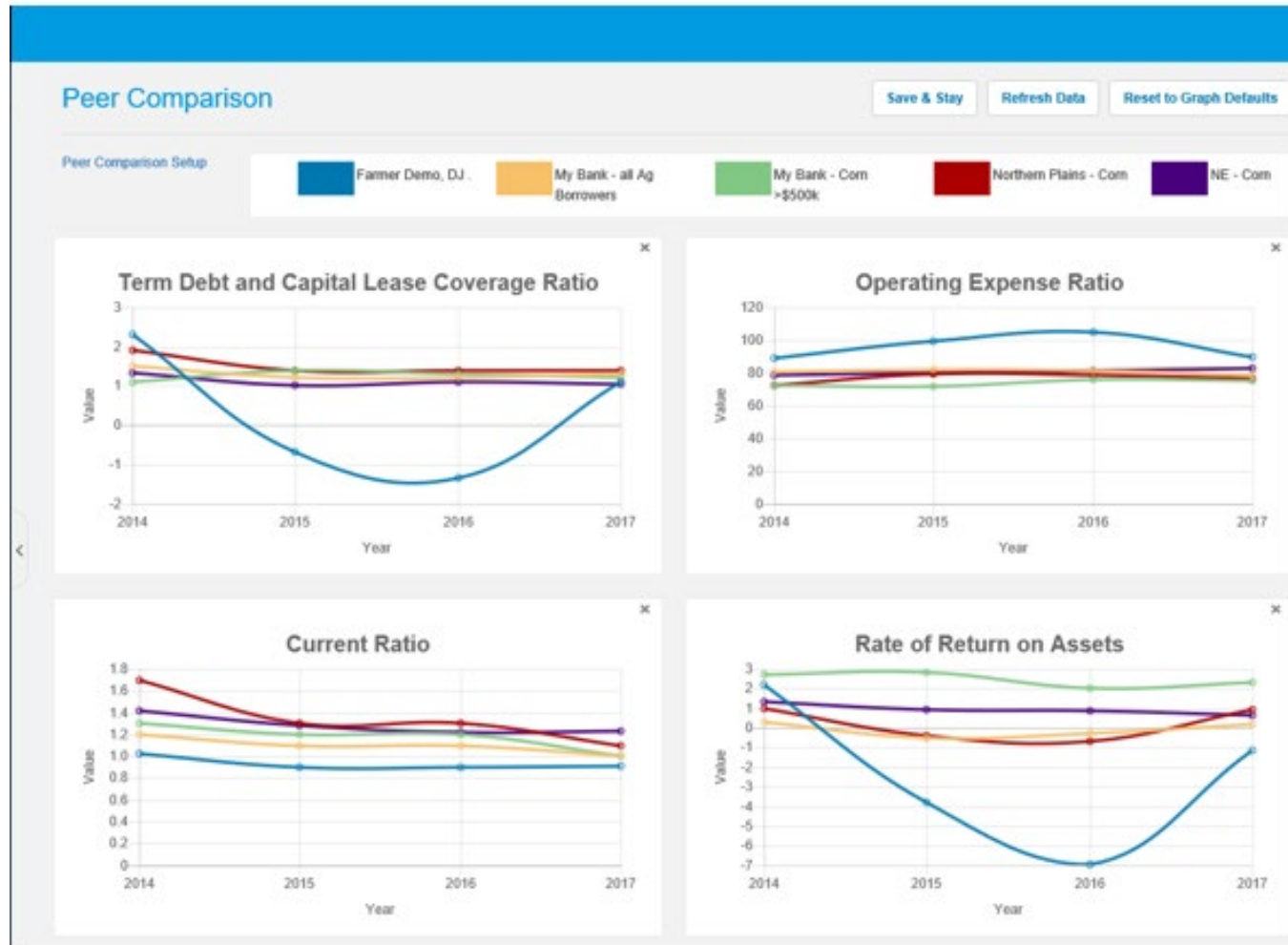
Debt To Asset Ratio

This ratio measures financial position. The debt/asset ratio compares total farm debt obligations owed against the value of total farm assets. This ratio expresses what proportion of total farm assets is owed to creditors. This ratio is one way to express the risk exposure of the farm business. It can be calculated using either the cost or market value approach to value farm assets. If the market value approach is used to value farm assets, then deferred taxes on the assets should be included as liabilities. This ratio is most meaningful for comparisons between farms when the market value approach is used to value farm assets. The higher the ratio, the more risk exposure of the farm business.

Computation:

Total farm liabilities
÷ Total farm assets
= Debt/Asset Ratio

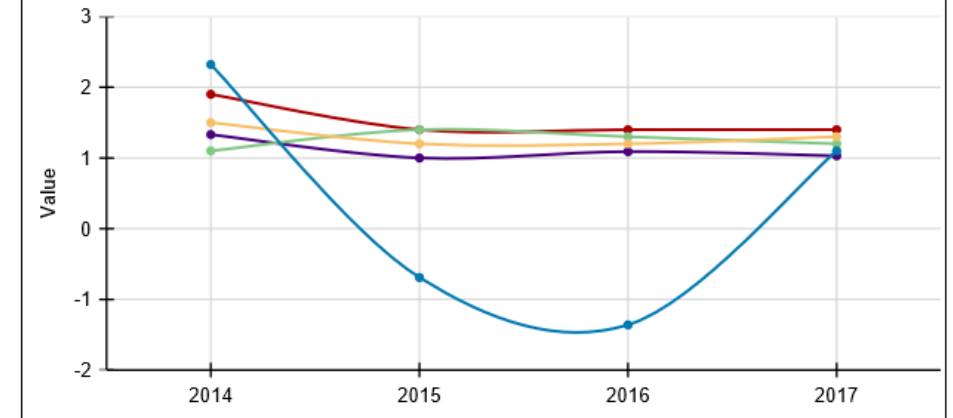
Commodity Market Outlook



Farmer Demo, DJ . **Ag Peer Comparison** Date Printed: 7/30/2019

Farmer Demo, DJ . My Bank - all Ag Borrowers My Bank - Corn >\$500k Northern Plains - Corn NE - Corn

Term Debt and Capital Lease Coverage Ratio



(TDCR VALUES)	Farmer Demo, DJ .	My Bank - all Ag Borrowers	My Bank - Corn >\$500k	Northern Plains - Corn	NE - Corn
2014	2.32	1.50	1.10	1.90	1.33
2015	-0.69	1.20	1.40	1.40	1.00
2016	-1.36	1.20	1.30	1.40	1.09
2017	1.10	1.30	1.20	1.40	1.03

(TDCR COUNTS)	Farmer Demo, DJ .	My Bank - all Ag Borrowers	My Bank - Corn >\$500k	Northern Plains - Corn	NE - Corn
2014	0	249	14	39	1783
2015	0	250	12	38	1720
2016	0	235	11	30	1564
2017	0	184	9	23	806

Commodity Market Outlook

Action Items – Steps to Success



Develop Growth Plan
Build Succession Plan

Transition



Assemble your Team
Collaborate with Data

Team



Develop a Marketing Plan
Document a Written Marketing Plan

Business



Understand your **Real** Cost of Production
Understand your **True** Break-Evens

Production

Commodity Market Outlook

Remember....

Never Confuse

Self-Worth

With

Net-Worth



Commodity Market Outlook



Keep Farmers Farming & Ag Lenders Lending
Thank You For Supporting Agriculture

Doug Johnson, Ag Strategist
1010 N. 102nd St Omaha, NE 68114
Douglas.johnson@moodys.com
402-639-4271

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