

Inside Look at Policies and Politics

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Revenge is Emotion, Not Policy



Don't Mess with Trump



Congress This Year

- **Legislative possibilities:**
 - Impeachment failure and emotions after
 - State of Union skirmishes signal no major legislation ahead
 - Transportation bill push by House Dems and Senate GOP
 - Labor bill, but major differences between House, Senate
 - Mandatory Livestock Price Reporting
 - CFTC reauthorization
 - Grain Standards Act
 - Senate has child nutrition bill, but has not been done since 2010

Trump's FY 2021 Budget Proposals: Going Nowhere

Proposes savings in ag mandatory programs (in millions of dollars):

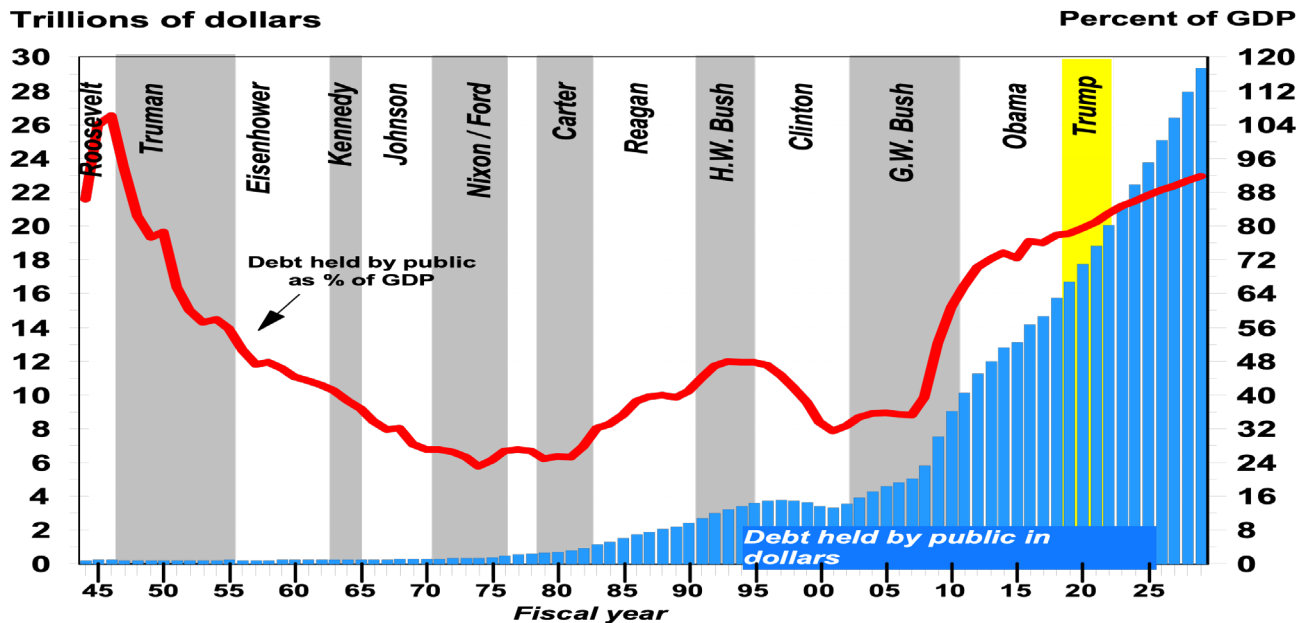
| Item | 2021-2025 | 2021-2030 |
|---|----------------|----------------|
| Tighten farm payment eligibility rules | -1,255 | -2,654 |
| Reduce Crop Insurance subsidies | -9,999 | -24,985 |
| Eliminate redundant Farm Bill programs | -3,151 | -6,417 |
| Streamline conservation programs | -3,300 | -9,145 |
| Eliminate in-kind international food aid | -830 | -1,660 |
| Establish new user fees for food inspection and mineral extraction | -2,685 | -5,985 |
| Reform commodity purchases under Section 32 | -2,289 | -5,141 |
| Improve Child Nutrition program integrity | -679 | -1,714 |
| TOTAL, AGRICULTURE | -24,188 | -57,701 |

Trump's FY 2021 Budget Proposals:

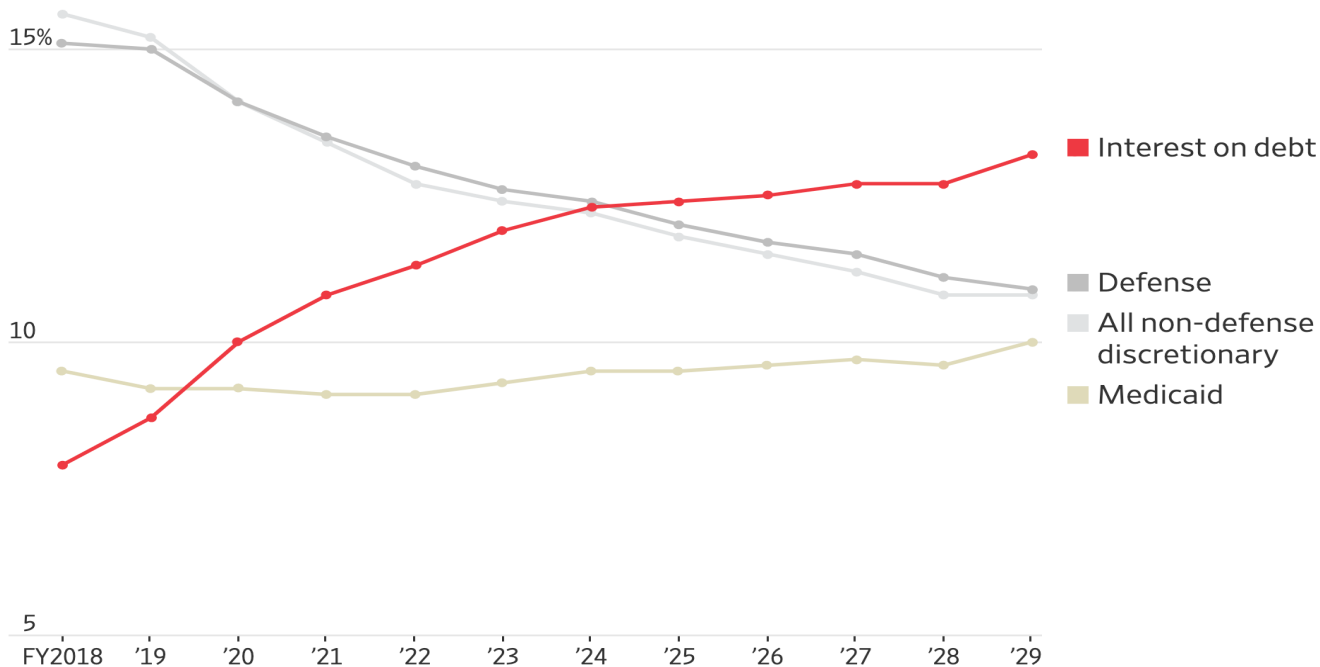
A few things...

- ☐ Limit T1/T2 to producers under \$500,000 AGI
- ☐ Eliminate certs
- ☐ Eliminate separate limit for peanuts
- ☐ MALs subject to \$125k
- ☐ Limit farms to one manager
- ☐ Eliminate EAAP for upland cotton
- ☐ Eliminate LFP
- ☐ **Eliminate the 508(h) process**
- ☐ **Limit CI subsidies to producers under \$500,000 AGI**
- ☐ **Cut subsidy for HPO coverage by 15% points and reduce all other subsidies by 10% points other than CAT**
- ☐ **Cap underwriting gains at 12%**

Debt Increases \$10 Bil. Next Decade with No Changes



Projected expenditures as a percentage of the total budget



Trade Policy: USMCA

- Labor, enviro provisions seal deal in House; chamber votes 385-41
- Senate handily clears as expected: 89-10
- Watch now on implementation after Canada action
- Gains for ag in dairy, poultry, wheat
- Certainty is biggest benefit for U.S. agriculture

U.S./Japan Agreement

- Beef, pork & poultry chalk up wins
- Rice left out as it remains sensitive in Japan
- Auto tariffs averted
- Certainty key for other U.S. ag goods
- Next round ahead in spring

U.S./China: Phase 1

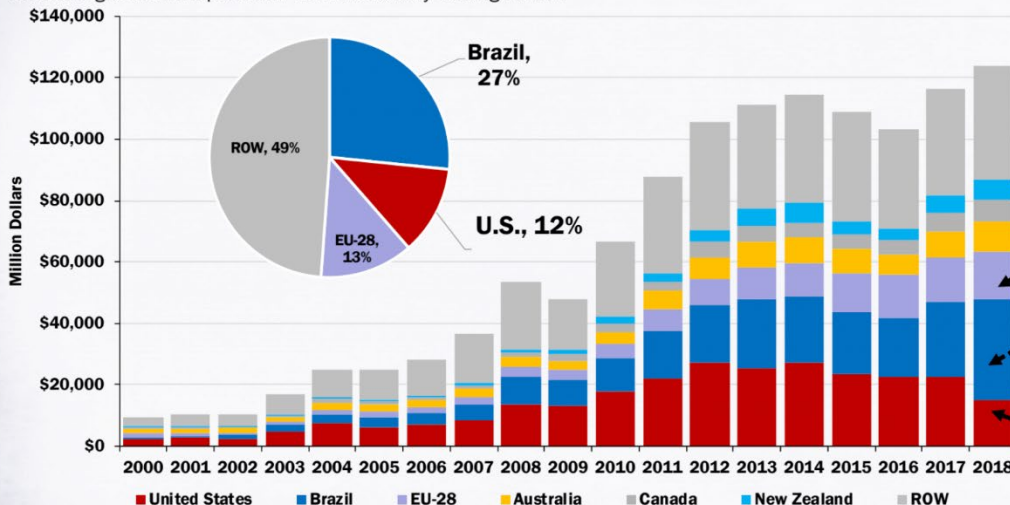
- Enforcement mechanism
- Purchases based on 'market conditions'
- Effective within 30 days of signing... Feb. 14 start
- Impacts of coronavirus
- WTO challenge?

U.S./China: Phase 1

- \$40 billion in U.S. ag purchases annually over two years
- Purchases of manufactured goods, energy and services
- Key changes on beef
- Study on ractopamine
- FSIS standards recognized by China
- Biotech approval changes important

China Does Have The Purchasing Capacity, Bought \$124B in 2018

Chinese Agricultural Imports and Market Share by Trading Partner



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YoY Changes

+\$5.7B

Chinese Agricultural imports From ROW Increased 10% Compared to 2017

+\$1.0B

EU-28 +7%

+\$8.9B

Chinese Agricultural imports From Brazil Increased 37% in 2018

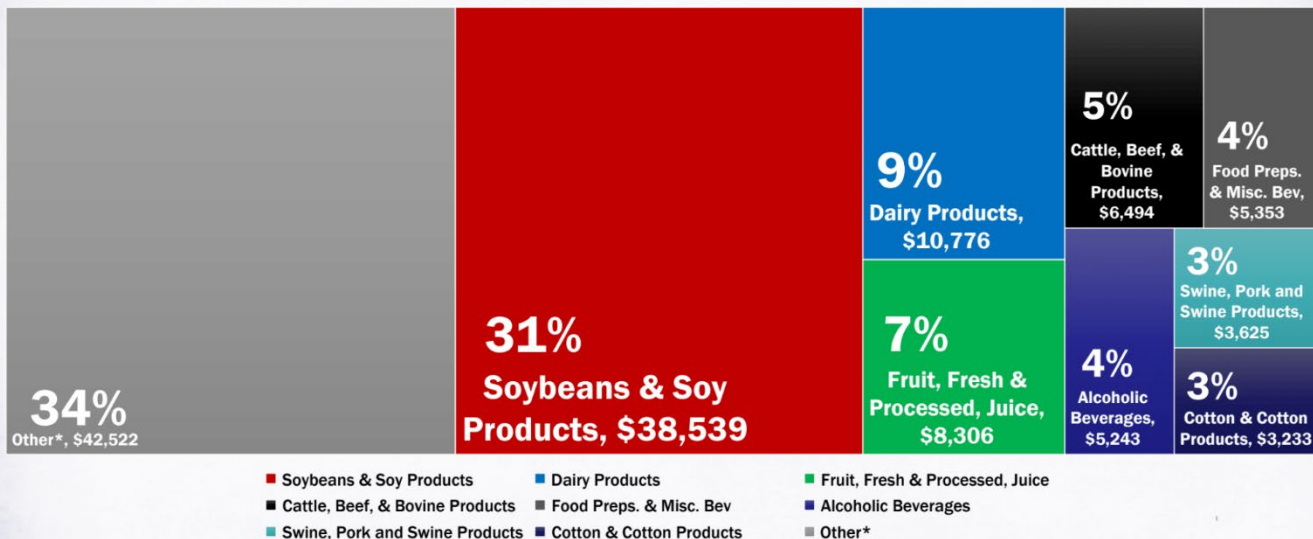
-\$7.8B

Chinese Agricultural Imports From U.S. Dropped 34% in 2018

Source: USDA, Farm Bureau Compilations

What Do The Chinese Buy? \$124 Billion in 2018

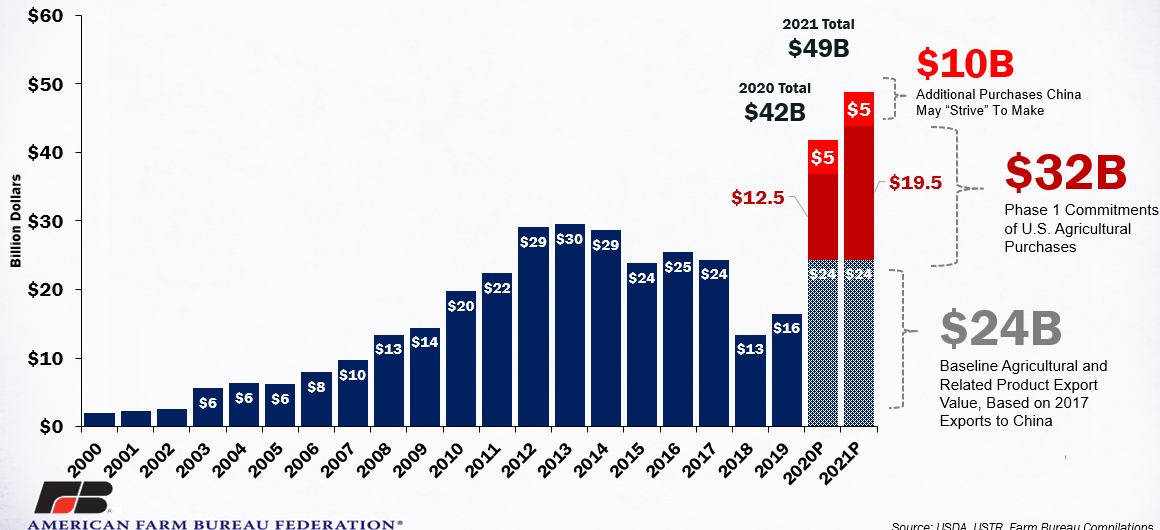
Chinese Agricultural Imports in 2018 By Commodity Category



U.S./China: Phase 1

What a China Phase 1 Trade Deal *Could* Look Like

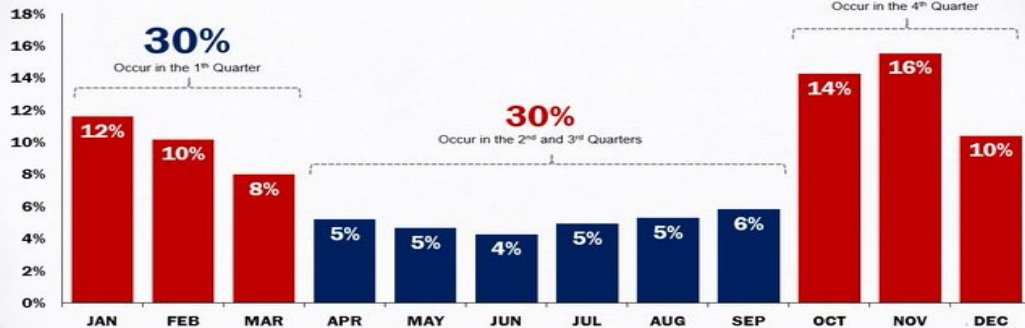
Chinese Agricultural and Related Goods Imports from the U.S., Actual and Implied Base on Phase 1 Commitments



U.S./China: Phase 1

When Is China “In” The U.S. Market?

Monthly Percentage of Annual U.S. Agricultural Exports to China, 10-Year Average



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Source: USDA, FAS GATS, Farm Bureau Compilations

Trade Deals Ahead

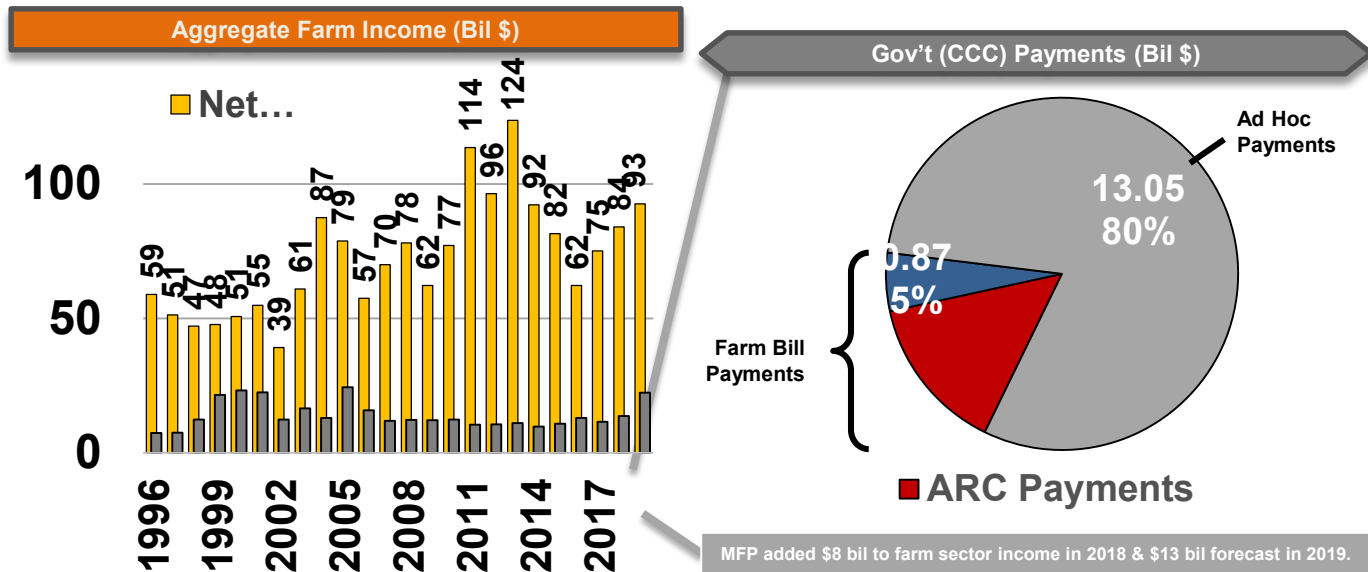
- India eyed as next potential trade deal
- U.S./U.K. trade pact
- U.S./EU?
- Others?

Farmer Aid Linked to Trade

- Around \$12.3 billion via MFP 2, with 3rd tranche coming... \$3.6 billion
- 2018 MFP over \$8 billion
- Big chunk of farm income coming from aid
- Perdue says no 2020 MFP, but...

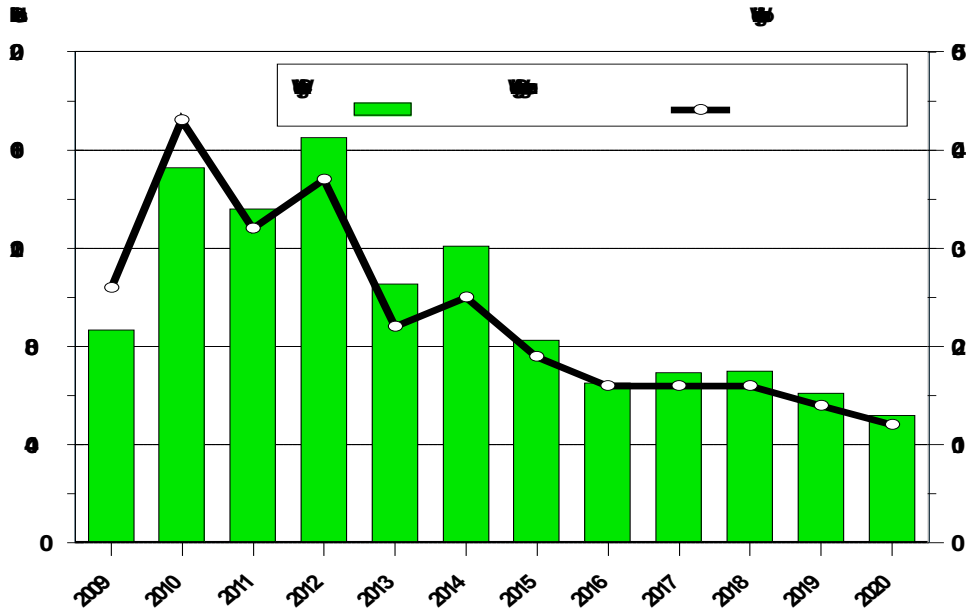
Aggregate U.S. Farm Income Helped by Gov't Payments

Extra Gov't Payments Improved 2019 Farm Income Amid Flat Market Receipts



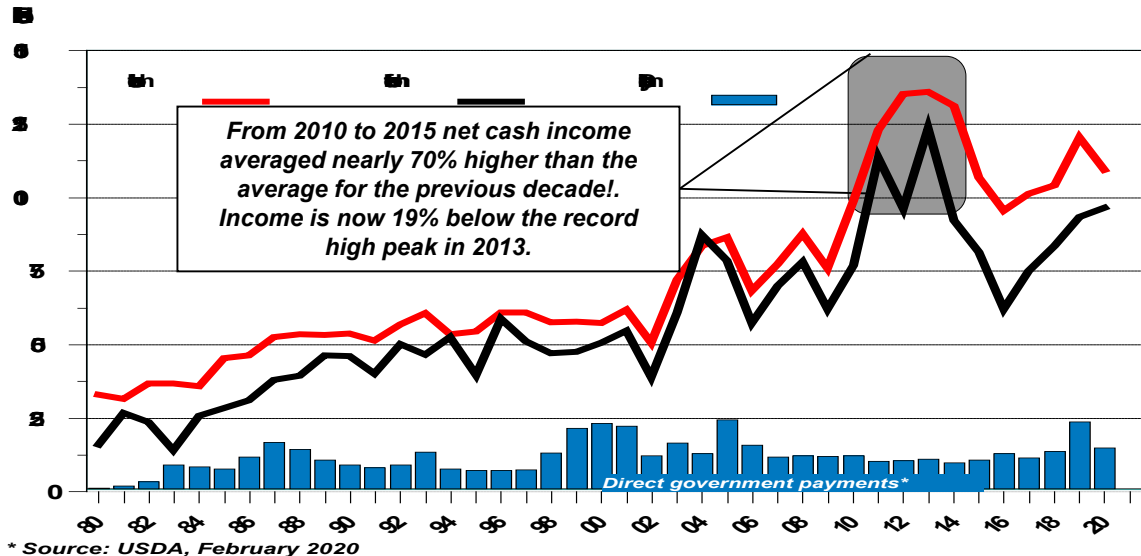


Working Capital Drain

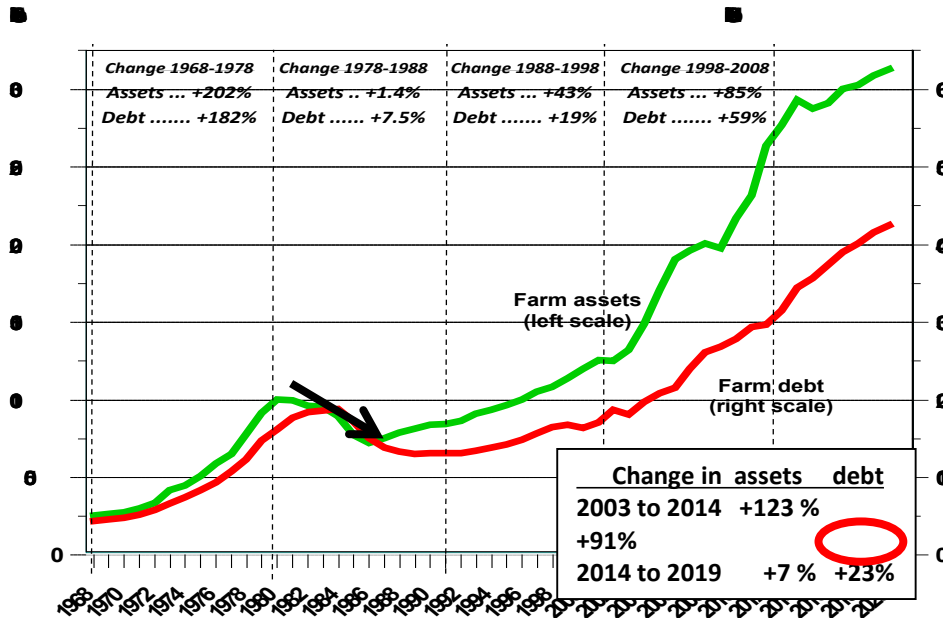




2020 Pivotal Year if Gov't Payments Reduced



Ag Balance Sheet Better Prepared for Volatility But Debt is Rising Rapidly



If Net Farm Income Does Not Recover Asset Values Will Face Pressure

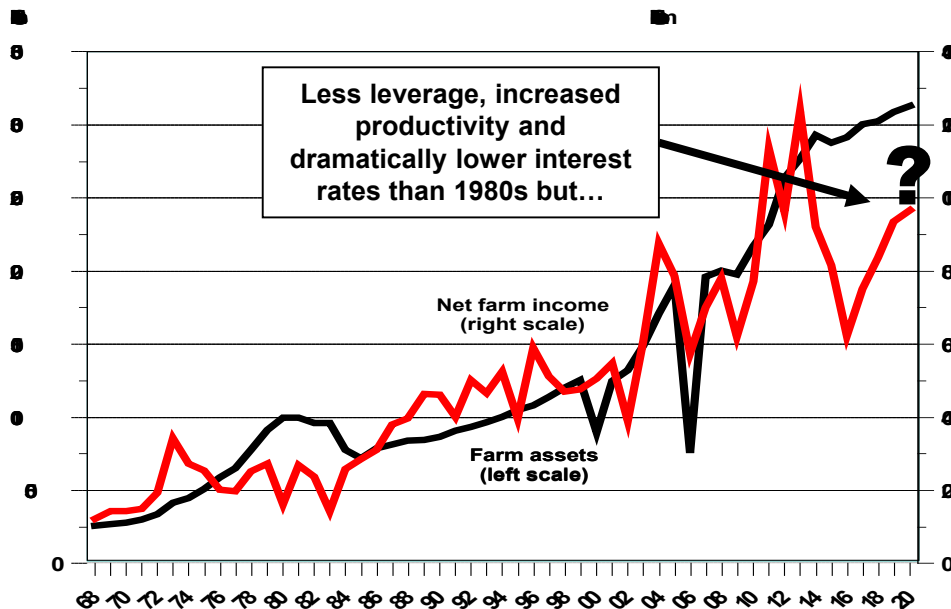
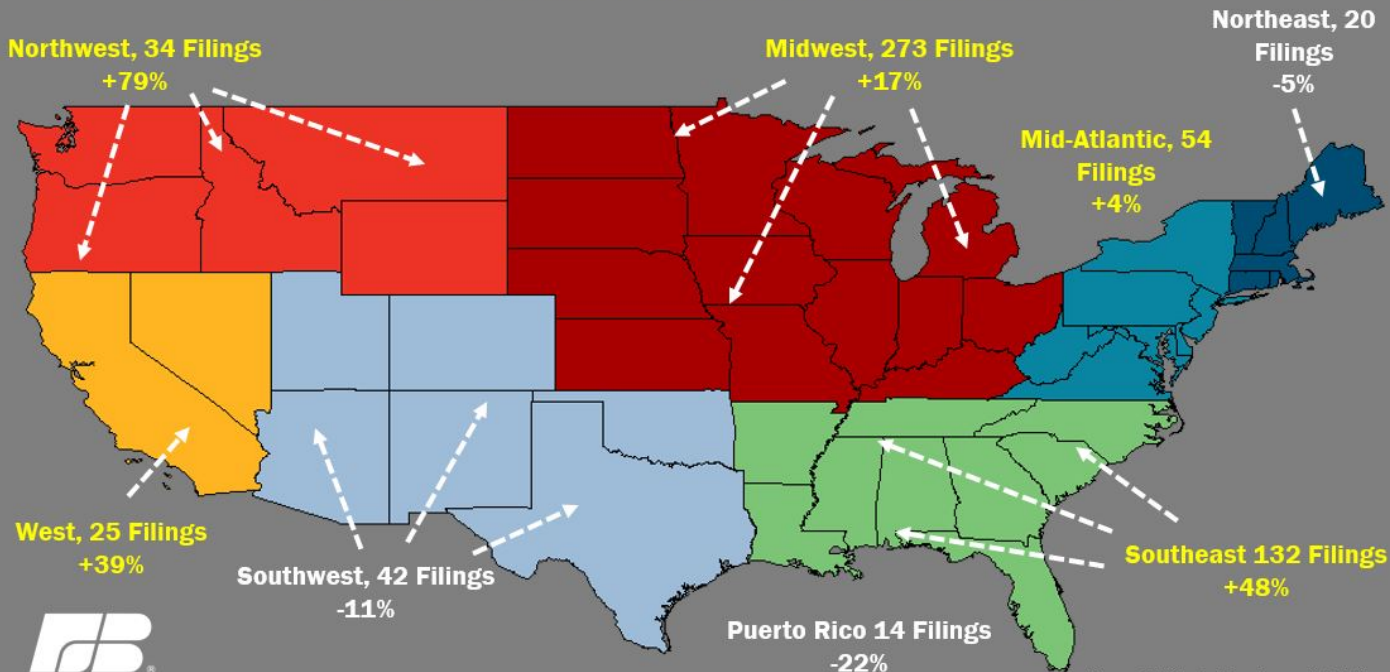


Figure 4. Chapter 12 Farm Bankruptcies By Region, 595 Filings, U.S. +19%
12-Month Period Ending in December, 2019 Compared to 2018



Outlook: Corn

- **Supply:** Following short harvest in 2019, total supply of nearly 16.0 billion bushels down 500 million from 2018-19 and by 1.0 billion from 2017-18.
- **Demand:** 2019-20 demand steady to moderately lower from 2018-19. 14.1-14.3 billion vs 14.3 billion last year.
- **China import decisions** for quantity and timing key unknowns.
- **Feed demand up**, yet USDA still may be underestimating potential given expanding export meat demand.
- **Ethanol demand steady to improving.** China demand and small refinery exemptions question marks.
- **Exports weak via competition** from S. America, Ukraine and Russia. Waiting on Chinese demand confirmation.
- **Ending stocks** below 2 billion bu. first time since 2015-16. Probable 1.7-1.9 billion, down 300-500 million YOY.

Outlook: Corn

- **Cash basis strength** expected to continue into summer. 2019-20 cash forecast \$3.90 vs \$3.61 in 2018-19.
- **2020 planted forecast 94.8 million acres.** Trade estimates about 93-96 million. USDA estimated 94.5 million in November.
- **2020 demand rebuilds** to 15 bil. bu., while ending stocks rebound toward 2.1-2.2 billion, prices drop to \$3.80. Key unknown: China demand.

Outlook: Soybeans

- **USDA removes degree of uncertainty** from U.S. soybean crop, raising output 8 mil. bu. in January to 3.558 billion.
- **S. American crop rising** following larger plantings, mostly good growing conditions.
- **Argentina:** Some areas of lingering dryness seen in Argentina.
- **U.S. export commitments trailing** pace needed to reach current forecasts, but trade optimistic for now on recent U.S./China Phase 1 agreement.
- **Outstanding sales to China** well below pre-trade-war levels.
- **Market focusing** on recent soybean sales from S. America.
- **U.S./S. America:** U.S. offers 40-60 cents above new-crop South American values.
- **U.S. crushings** on pace to reach current forecasts for 2.105 billion bushels. Margins capped on weaker meal prices.

Outlook: Soybeans

- **Current soy/corn ratio** points to greater swing to corn acres in 2020.
- **Overall corn and soy acres** seen rebounding after troubled 2019 campaign.
- **Soggy conditions remain** in northern Midwest; above-average PP acres.
- **Futures prices range bound** between \$8.75 and \$10.25 into mid-2021.
- **Farm prices expected to firm** a dime in 2020-21 to \$9.10.

Outlook: Cattle

- **Overall U.S. cattle population** slipped 392,000 head (0.4%) annually, putting the Jan. 1, 2020 total at 94.413 million head.
- **Numerous signs point to domestic herd liquidation** over the next few years, which means Jan. 1, 2019 total at 94.805 million represented a cyclical peak.
- **Feedlot cattle supplies near a cyclical peak**, with Jan 1. U.S. feedlot population, at 14.668 mil., falling only slightly below 2008 record at 14.827 million.
- **Monthly large-lot feedlot data** indicate cattle slaughter/beef production is likely to run 2%-3% over year-ago levels through late winter.
- **Supply of 'market-ready' feedlot animals** most indicative of price potential. Steer carcass weights serve as the best indicator on that score.
- **Extremely low weights** through the 2017-19 period indicated tight market-ready supplies, thereby limiting the price damage caused by cyclical herd growth.

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Outlook: Cattle

- **Producers let marketings lag in late 2019**, which caused a surge in steer weights. Implied increase in market ready supplies played a big role in the recent price breakdown.
- **Discounts built into nearby futures show pessimism** built into the market, especially compared to the premium the most-active April contract often carries through the first quarter.
- **Discounts will encourage producers to sell cattle more quickly** and get marketings 'current' again.
- **Underlying beef demand**, particularly from domestic consumers, held up well in recent years. One reason: grocers kept retail beef prices below record mid-2015 highs through much of 2019.

Outlook: Cattle

- **U.S. beef imports and exports** have largely been balanced in recent years. U.S. sells lots of high-end beef, and imports large quantities of low-end product often destined for hamburgers. Focus on potential China purchases of U.S. beef.
- **Market was disrupted through much of late 2019** by a big August fire at a Tyson Foods beef packing plant in Holcomb, Kansas. Fed cattle prices dove from around the \$112 level to the \$100 dollar area over the following month. Market would have posted a bottom around \$110 in the absence of the fire.
- **Market outlook:** Doubt negative fundamental conditions in 2020 will send prices down to the \$100 area this year. Last year's \$100 quotes will represent a cyclical low, with prices likely to work cyclically higher in the years ahead.

Farm Policy

Farm bill implementation

- 2019 crop-year election deadline is March 15/16 for ARC/PLC
- 2020-crop enrollment deadline: June 30, 2020
- If 100% prevent plant, consider ARC-IC
- CRP: General signup with lower rental rates

Disaster legislation/programs

- No deadline date yet set for '18 and '19 disasters
- WHIP +
- Sugarbeets

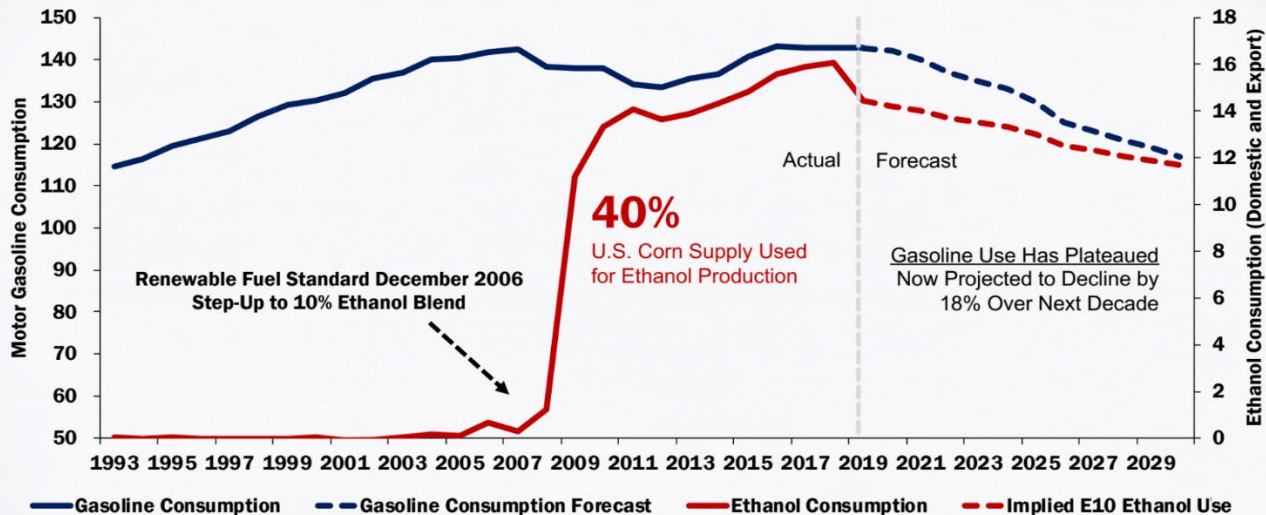
Biofuel Policy

- 2020 biofuel, 2021 biodiesel levels
- Accounting for small refinery waivers
- 21 SREs already sought for 2019
- Will it be a political liability for Trump?
- Biodiesel tax extension
- Future of RFS

Where Is The Next Domestic Demand Driver For U.S. Agriculture?

Ethanol At Risk to Demand Slowdown and SREs

U.S. Gasoline and Ethanol Consumption, Actual and Projected



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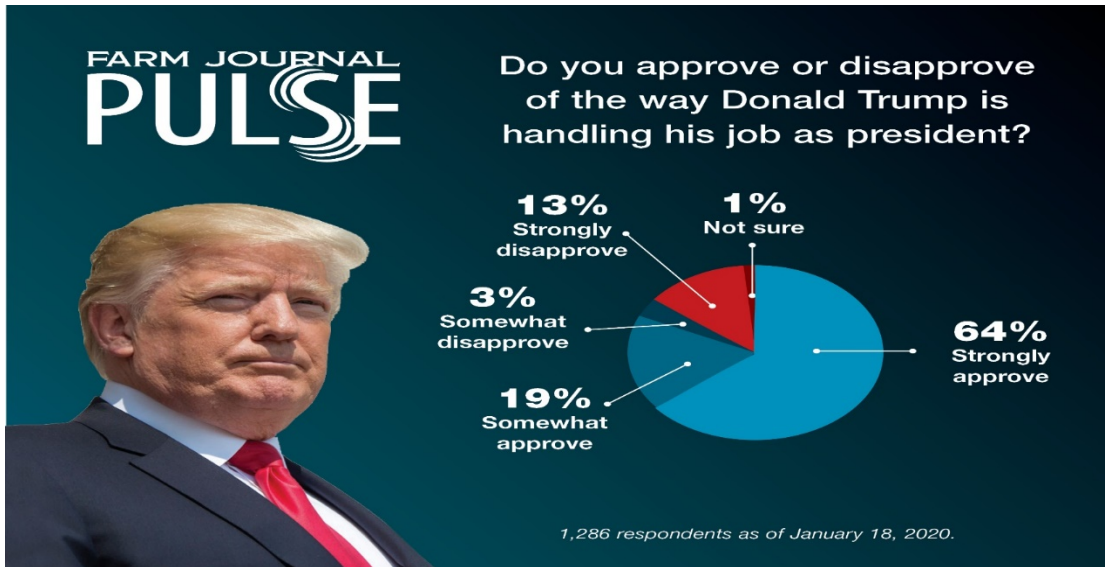
Source: EIA, Farm Bureau Calculations and Projections for Ethanol

2020 Elections



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2020 Elections



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Election Outlook

- **Role of rural states:** Trump wants to take Minn. as backstop plan
- **President:** Fla. | Ariz. | Mich. | N.C. | Pa. | Wis.
- **Democratic candidate:** ???? Brokered convention?
- **House:** GOP needs net gain of 18 seats, but...
 - 31 Democrats are in districts carried by Trump in 2016
 - Just 3 Republicans are in districts carried by Hillary Clinton
 - House majority hasn't flipped twice in row since 1954
 - House major hasn't flipped during presidential cycle since 1952
- **Senate:** Close, presidential election results could impact control

Election Impacts: White House

- **GOP:** What would a second-term Trump administration be like? Will Sonny Perdue continue as head of USDA?
- **Dems:** Push for more taxes to help fund other programs; more regs; use of executive orders... earmarks? BORING if Trump not around! Who would be USDA Secretary?
- **If either party wins White House, Senate *and* House:** Big changes

Election Impacts: Senate

- **GOP:** More tax cuts, transportation reform
 - Boozman (Ark.) chairman of Senate Ag Committee
 - Grassley timed off Finance panel... Crapo (Idaho) likely new chair
- **Dems:** Do away with 60-vote rule?
 - Stabenow chair of Senate Ag panel

Election Impacts: House

- **Dems:** Peterson at Ag; if loses or doesn't run: David Scott (Ga.), Jim Costa (Calif.), Marcia Fudge (Ohio)... B. Thompson (Miss.) has seniority
- **GOP:** GT Thompson (Pa.); others: Crawford (Ark.), Austin Scott (Ga.).

Reshaping Ag Sector

- ❖ **Ag revolution: Drones... Ag robots... AI/Big data...**
 - Relying on satellites, sensors as much as seeds, equipment
 - Big boost in yields, efficiency, profitability... more enviro friendly
- ❖ **Ag demographics: High tech, but how fast for farmers?**
Challenge: Over 20 mil. Americans lack high-speed broadband internet
- ❖ **Urban/Rural divide: Big and getting bigger**
- ❖ **Changing market: Producers and Customers**
Smaller upstarts will challenge agribusiness giants
- ❖ **RFS needs to be reauthorized... changes in gasoline usage**
- ❖ **Policy: Need to rethink/defend safety nets, crop insurance, other programs**

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