

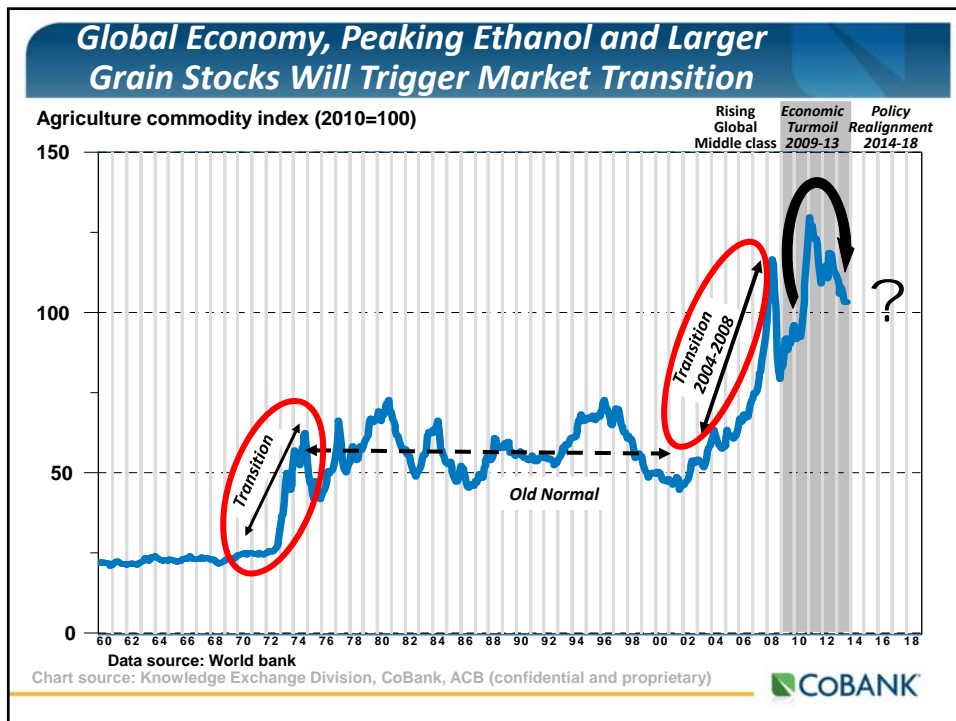


**"The Economic and Market Outlook for 2014"**

NGFA Country Elevator Conference

Presentation by:  
**Terry Barr, Senior Director of Industry Research**  
 Knowledge Exchange Division, CoBank, ACB  
 E-mail: [tbarr@cobank.com](mailto:tbarr@cobank.com)

Proud Member of the Farm Credit System 


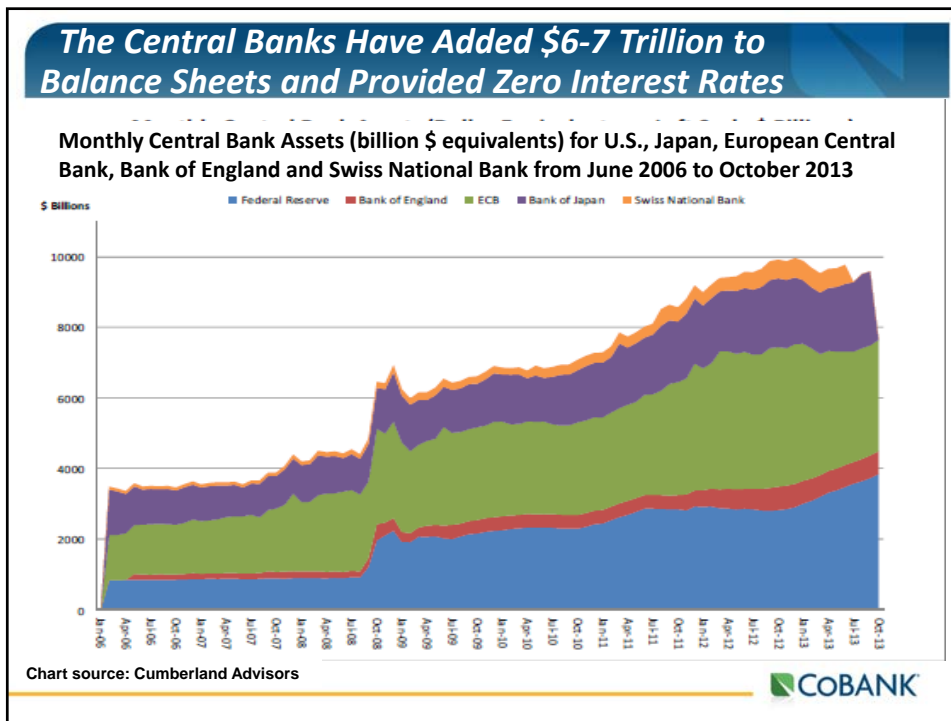



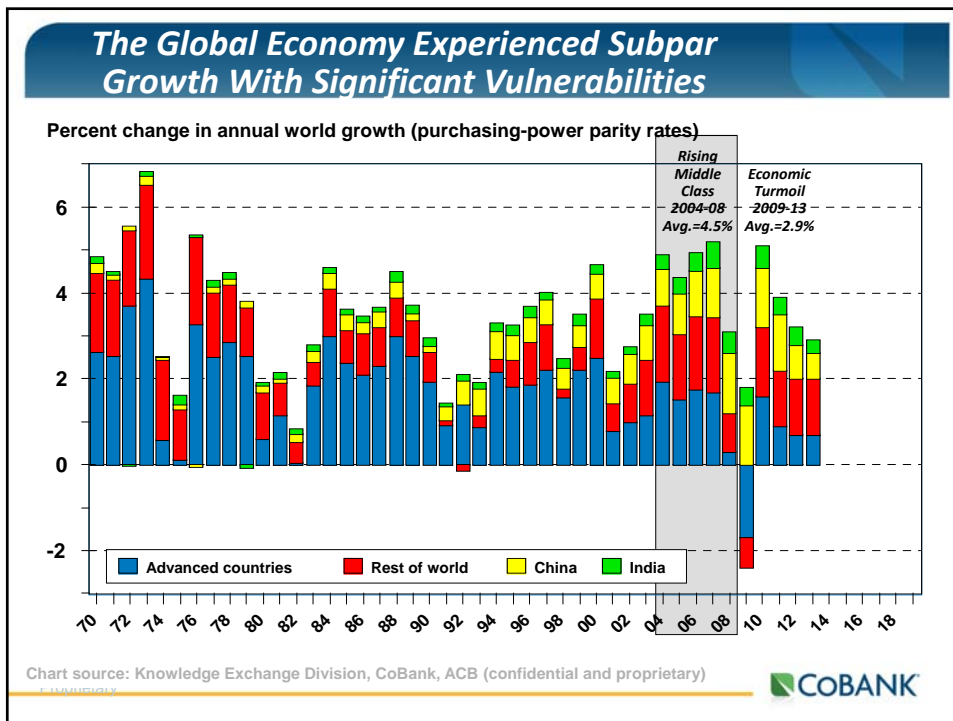
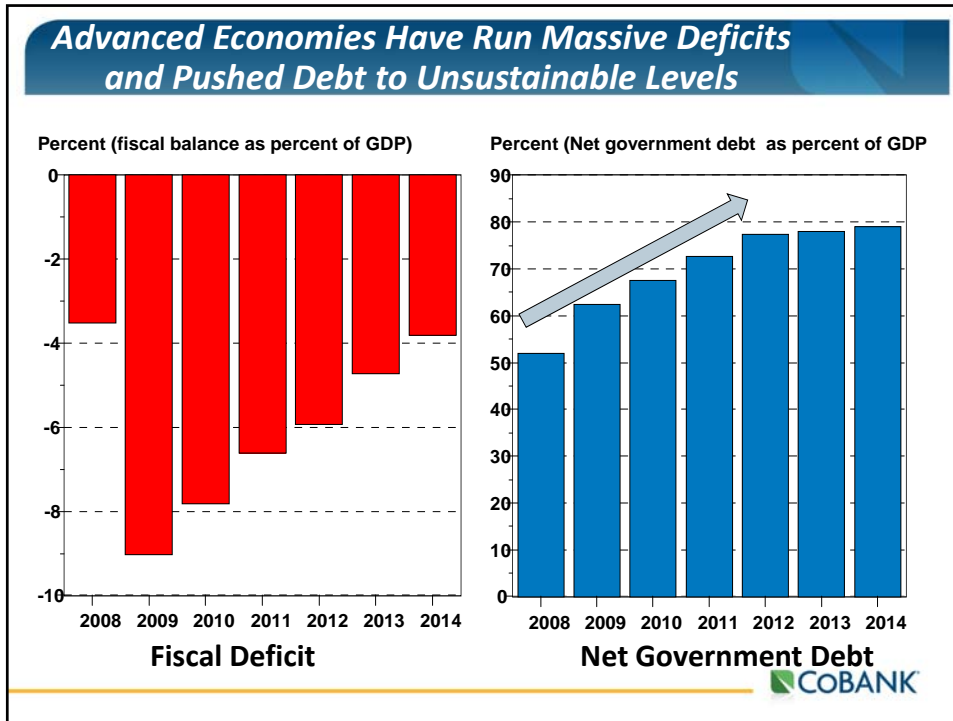
Presentation by Terry N. Barr, Senior Director, Knowledge Exchange Division, CoBank

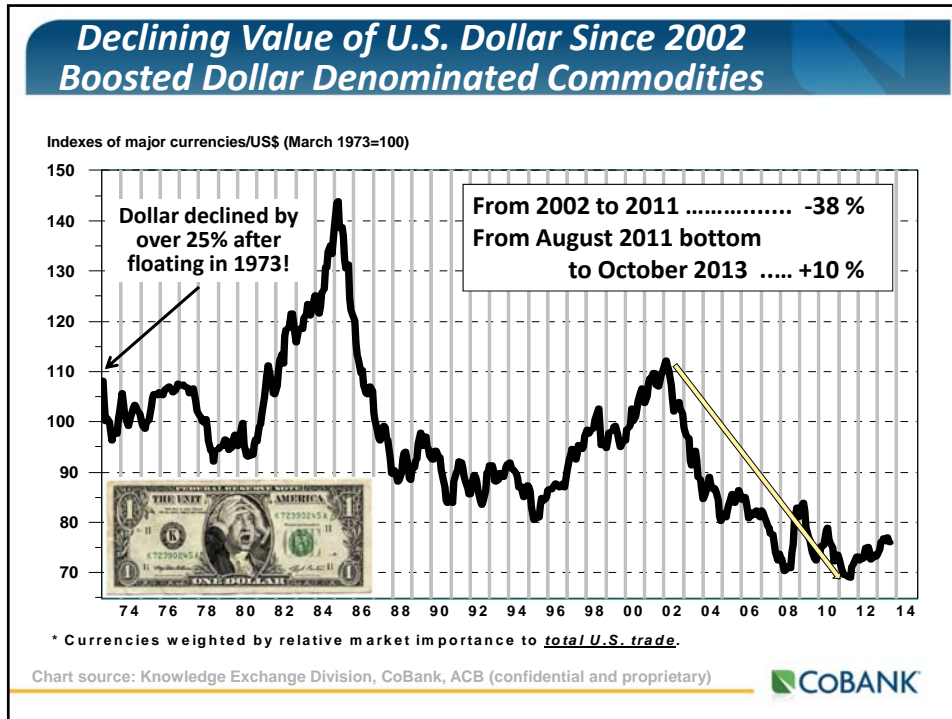
### U.S. Economy and Agriculture Faced Significant Turmoil Over The Past Decade ... What's Ahead?

2004-2008: "Rising Middle Class"	2009-2013: "Economic Turmoil"
Rapid global growth fueled by rising middle class in China and emerging markets.	Financial crisis/recession.
Stimulative fiscal and monetary policies	Global fiscal deficits and debt reach critical levels.
Sharply declining U.S. \$	Massive liquidity / near-zero interest rates
Rising financial leverage & "irrational exuberance"	Continuing emerging market growth/demand
Rising commodity demand & trade	U.S. consumer tempering spending & deleveraging.
Rapid growth in biofuels	Biofuels growth slowing
Declining grain stocks	Reduced crops force low grain stocks-to-use, boosted <b>price volatility</b> and insulated crop sector.
Rising U.S. meat exports	Stressed livestock/dairy.

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

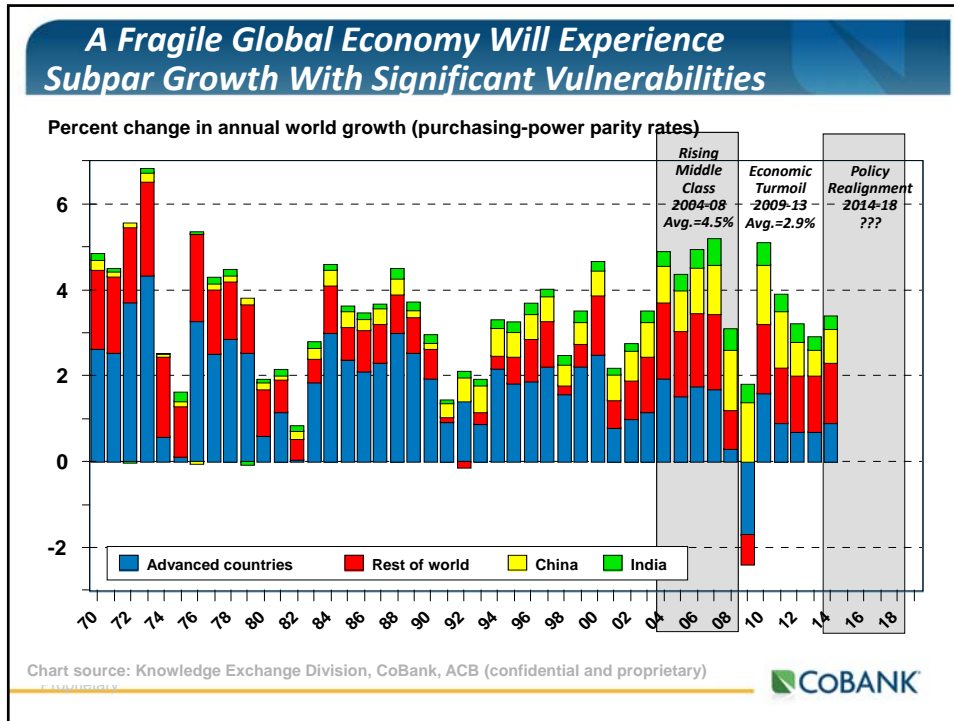




### U.S. Economy and Agriculture Faced Significant Turmoil Over The Past Decade ... What's Ahead?

<u>2004-2008:</u> <b>"Rising Middle Class"</b>	<u>2009-2013:</u> <b>"Economic Turmoil"</b>	<u>2014-2018:</u> <b>"Policy Realignment"</b>
Rapid global growth fueled by rising middle class in China and emerging markets.	Financial crisis/recession. Global fiscal deficits and debt reach critical levels.	Rising fiscal austerity and major <b>global</b> policy shifts. Geopolitical realignments.
Stimulative fiscal and monetary policies	Massive liquidity / near-zero interest rates	Reduced global liquidity, rising interest rates and more currency volatility.
Sharply declining U.S. \$	Continuing emerging market growth/demand	Subdued growth in China and emerging markets.
Rising financial leverage & "irrational exuberance"	U.S. consumer tempering spending & deleveraging.	U.S. consumer recovering.
Rising commodity prices, demand & trade	Biofuels growth slowing	Bio-fuels plateauing with new energy paradigm
Rapid growth in biofuels	Reduced crops force low grain stocks-to-use, boost <b>price volatility</b> and insulate crop sector.	Global grain/oilseed stocks rebuilding. Protein and dairy realigning.
Declining grain stocks	Stressed livestock/dairy.	<b>Price volatility</b> continues
Rising U.S. meat exports		

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary) COBANK



### The Global Economy Continues to Struggle With Major Unresolved Strategic Issues

**Europe:** Debt/deficits/austerity; Merkel victory sets stage; ECB promises whatever it takes and cuts rates! Out of recession but .....

*Angela Merkel*  
German Chancellor

**Japan:** devaluation; central bank QE actions; debt and consumption tax; more stimulus?

*Xi Jinping*  
President of China

**U.S.:** Policy inaction limits growth; debt/deficit debate may continue for years; immigration, health care, farm bill, etc. pending; Federal Reserve tapering.

*Ben Bernanke*  
FED President

**China:** Leadership transition; slower exports limit growth; transition to consumer sector as driver; vulnerable shadow banking and new reform agenda.

*Xi Jinping*  
President of China

**Emerging markets** weakening as trade and capital flows slow

*Christine Lagarde*  
Managing Director IM

**Emerging markets**

*John Boehner*  
Majority Leader

*Harry Reid*  
Senate Leader

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### China's New Leadership Must Manage Transition to Consumer-Led Economy

Nov. 9<sup>th</sup>

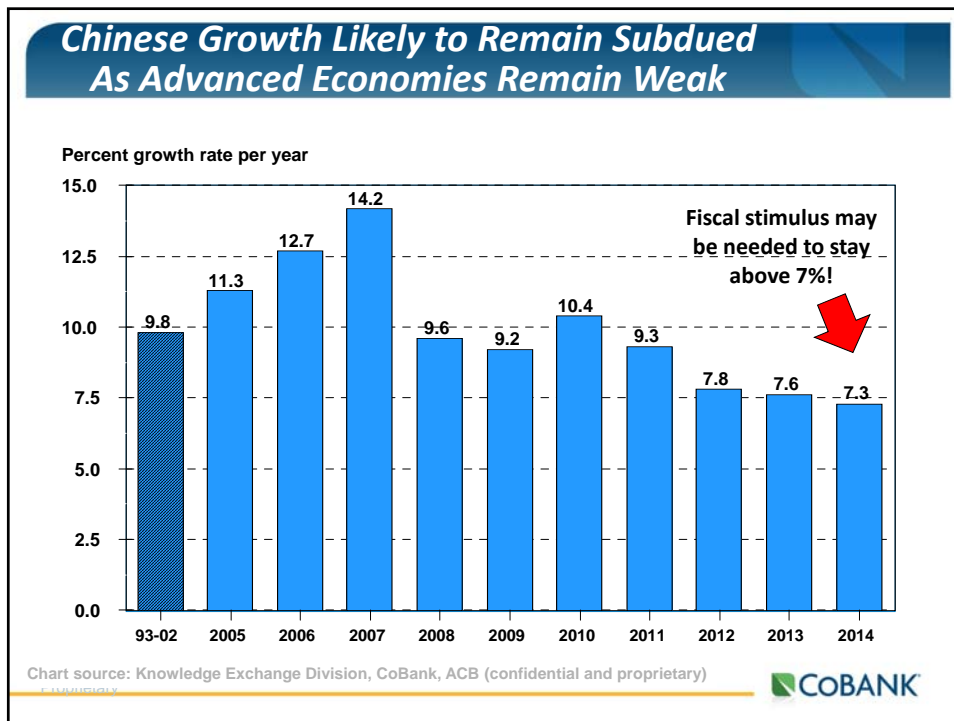
**3<sup>rd</sup> plenum of communist party normally sets the reform agenda:**

- Solidify political control.
- Rural land reform; mechanization of agriculture.
- Reform financial services & banking.
- Reorganize energy (oil & gas) sector.
- Free trade zone in Shanghai.
- Pollution cleanup and control.



Xi Jinping  
New President of China

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

**U.S. Economy Can't Sustain Momentum**

**Deficit / Debt and Major Policy Issues Require Balancing Austerity with Growth and Jobs and Removing Pressure on Monetary Policy**

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**U.S. Economic Policy Inaction Creates Headwinds for Economic Growth!**

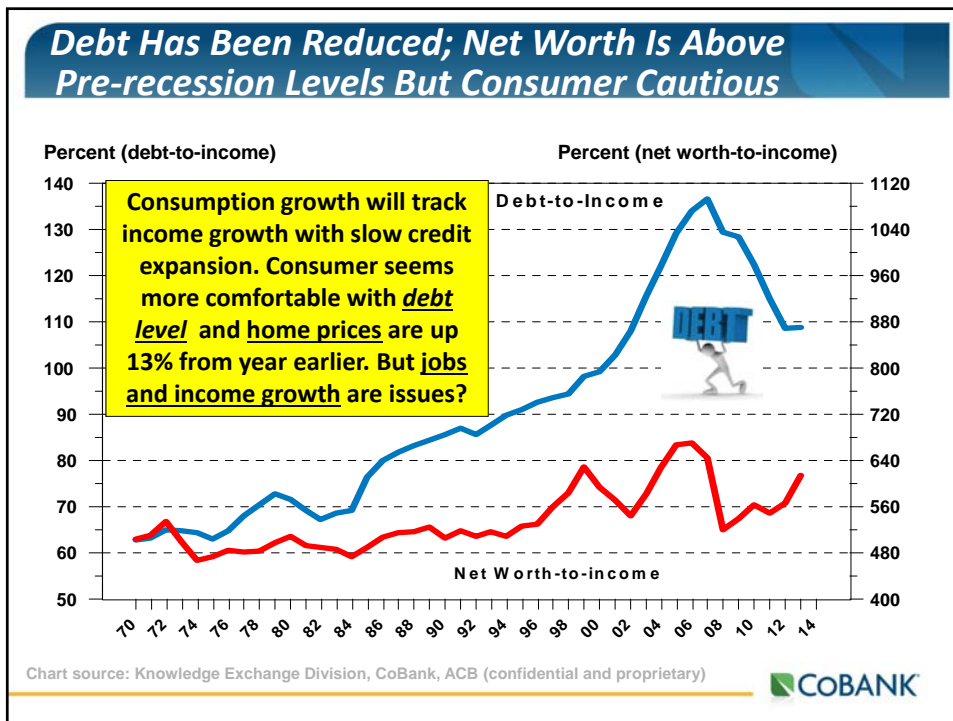
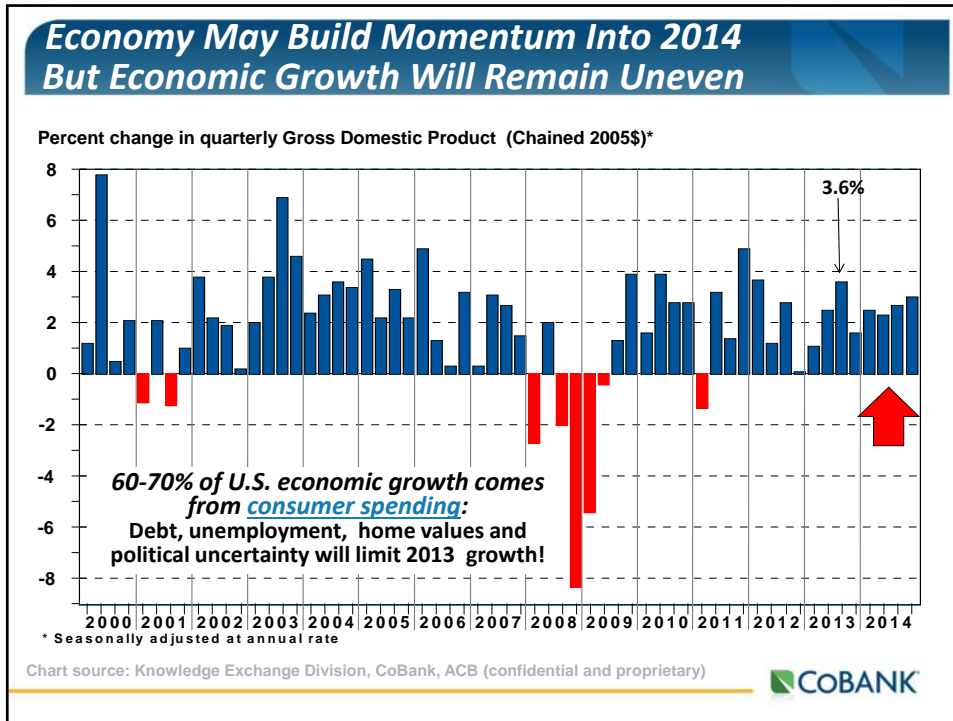
**U.S. can't get beyond short term deficits to address major policy reform:**

<b>Financial sector</b>	Financial sector regulatory reform implementation
<b>Energy sector</b>	New energy paradigm; Fracking & horizontal drilling technology change fossil and renewable roles!!
<b>Immigration</b>	Reform groundwork being laid for 2014
<b>Health care sector</b>	Affordability Care Act, Medicare / Medicaid reform?
<b>Regulatory oversight</b>	Increasing regulation; Clean air & water, Food safety
<b>Trade Agreements</b>	TPA vote; Trans-Pacific (TPP); Trans-Atlantic (TTIP)
<b>Deficit reduction</b>	Changing tax policy and entitlement programs (including farm and food programs).

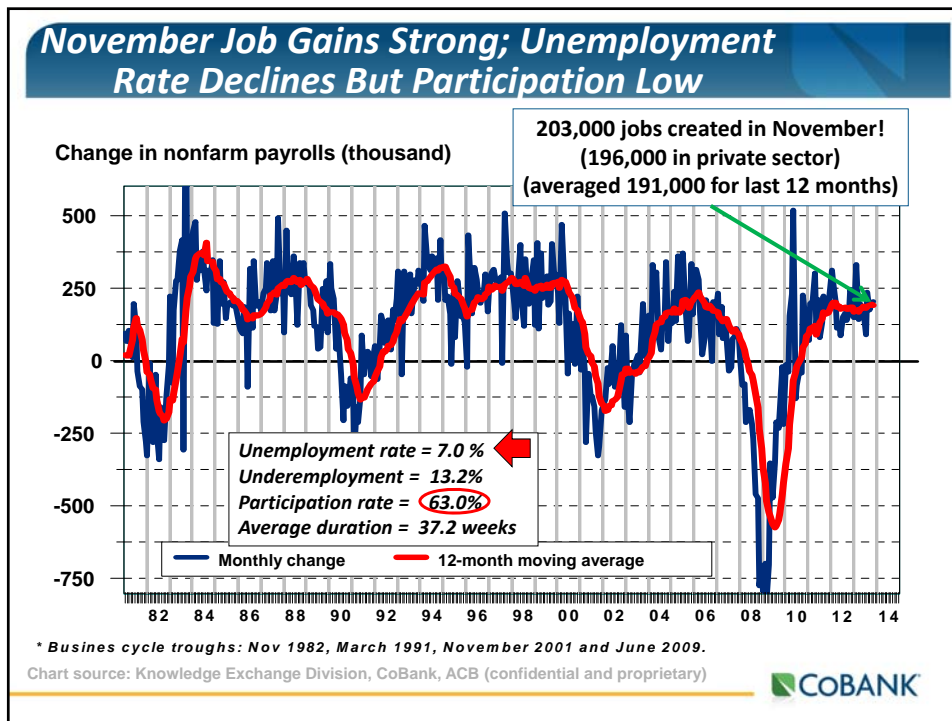
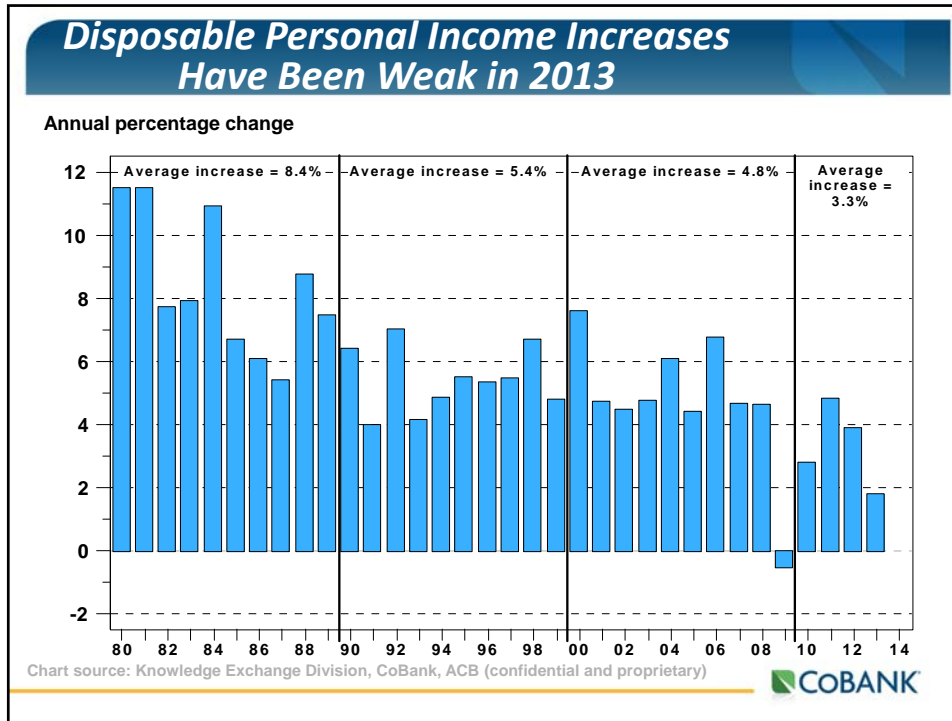
**Risk management and investment strategies cannot deal with policy vacuum. Companies can measure and adjust to risk based on actual policy decisions!**

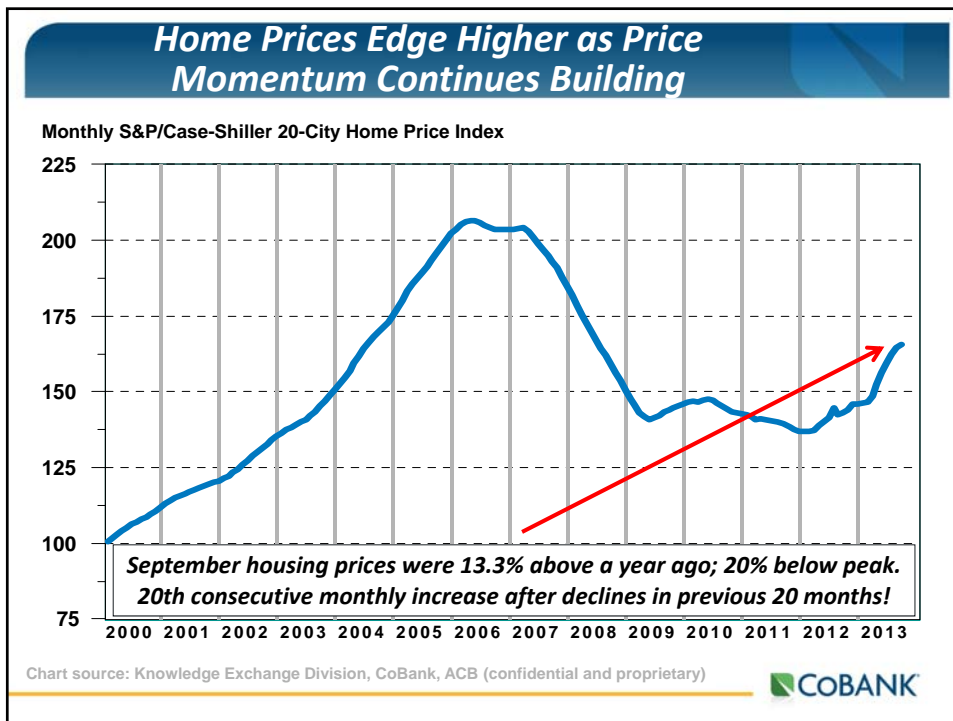
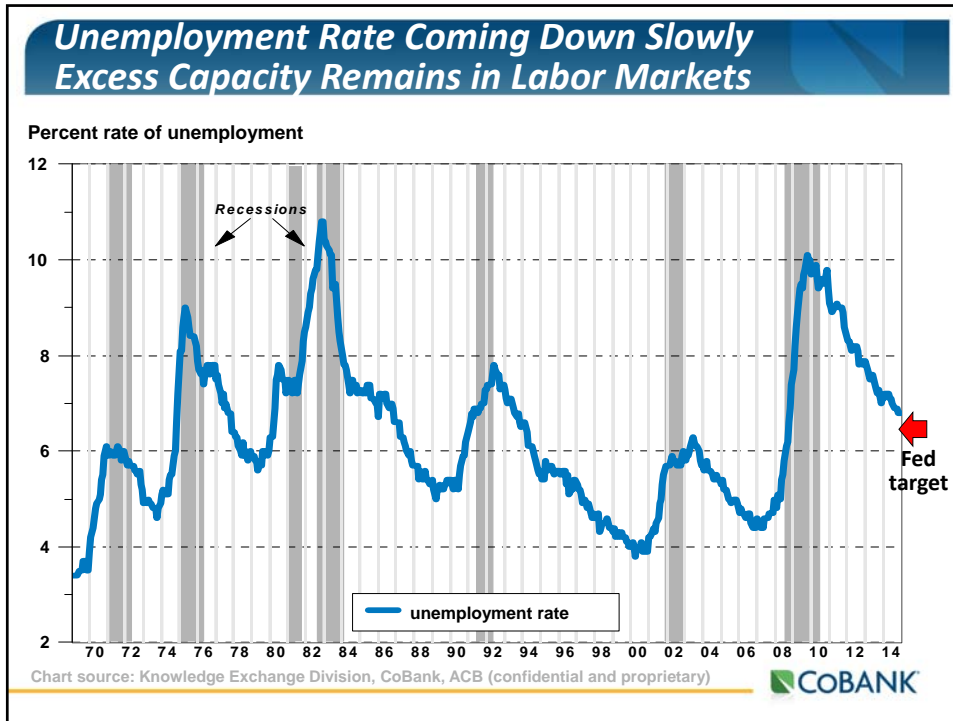
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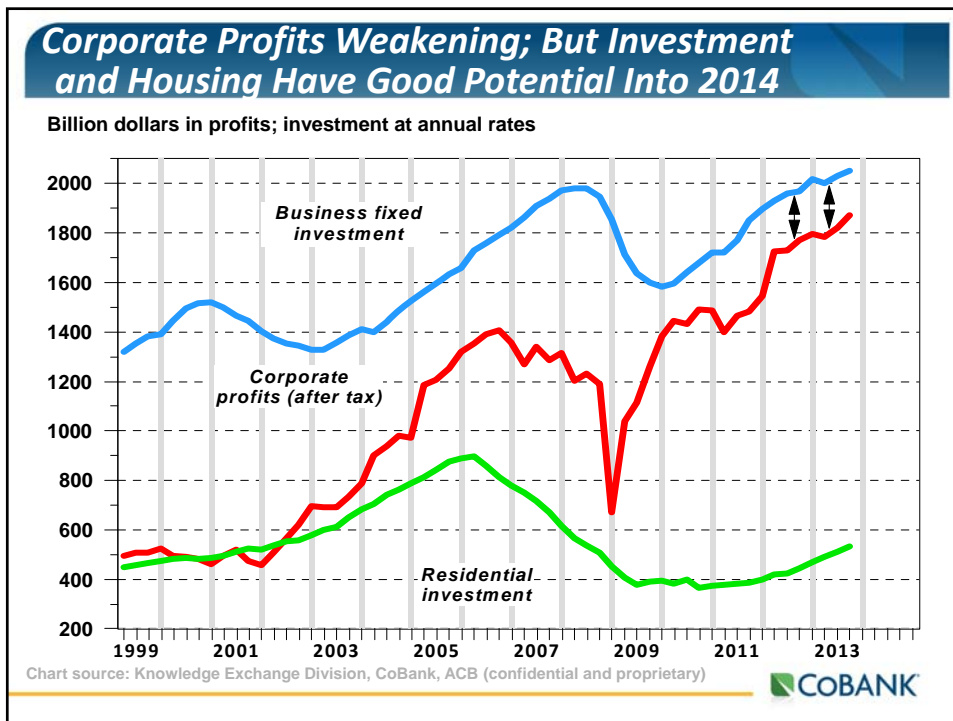
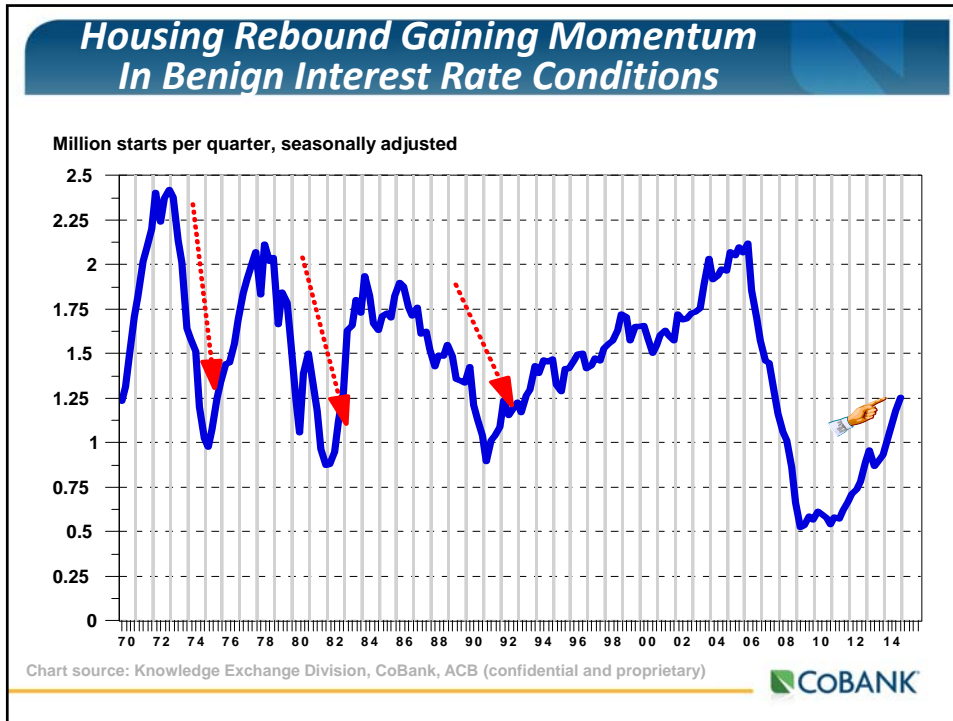
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### ***Policy Paralysis Is Limiting Growth!***



White House

U.S. Federal Reserve

U.S. Treasury Department

Congress

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



### **Kick the Can to 2015 or Lay Groundwork for Long Term Budget Agreement?**


**The government is open and will be funded through Jan. 15, 2014 at current levels.**

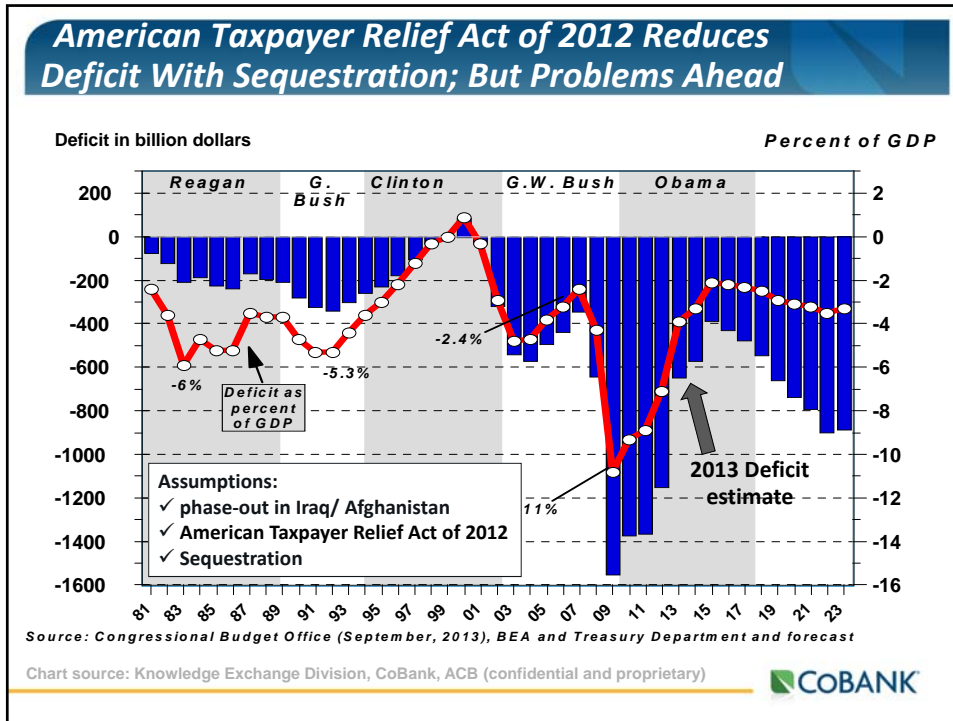
**The Federal debt ceiling is raised until Feb. 17, 2014.**

**A House-Senate committee will issue a budget resolution by Dec. 13, 2013.**

**Only a small deal to replace sequester cuts for next two years. No grand bargain for long term!**

**Kick the can to 2015.**





### Farm Bill Finish Line in Sight But Major Issues Still Need to be Resolved


**Farm Bill could be a stand alone bill with savings directed to budget resolution or it could be incorporated into a budget agreement.**

**Conference continues but bill may not come until 2014???**


**SNAP, dairy and programs to replace direct payments at issue!!**

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### Monetary Policy Uncertainties Continue


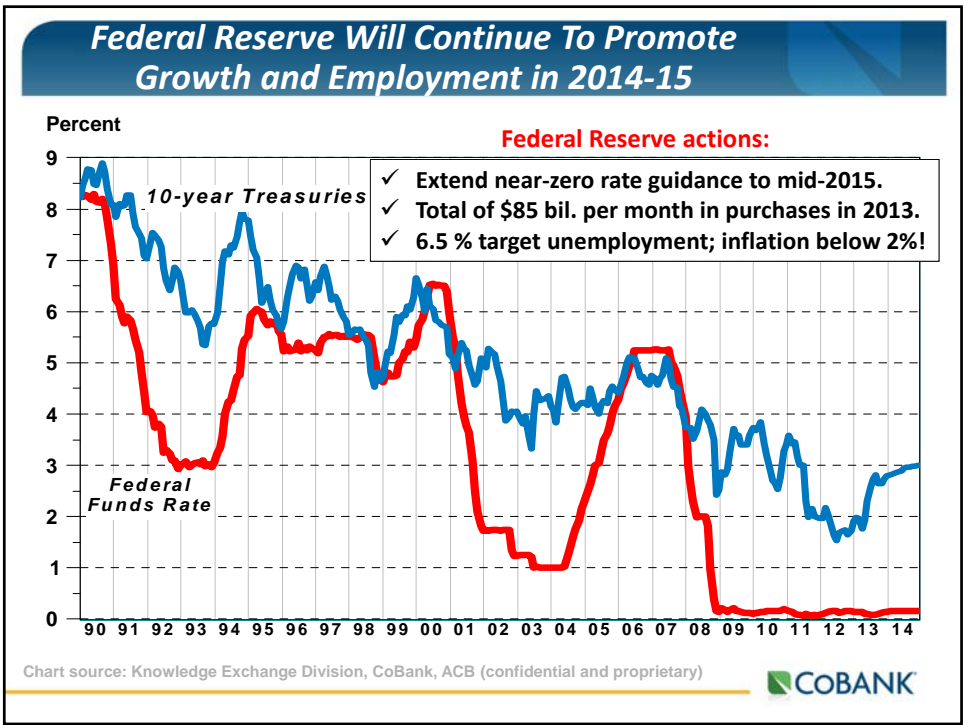


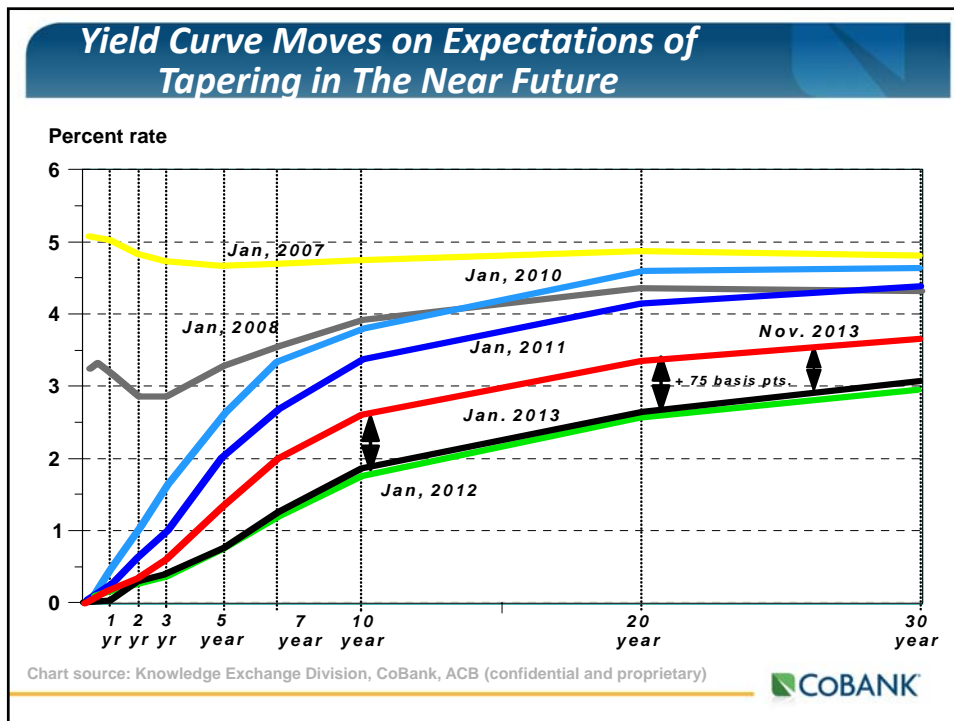
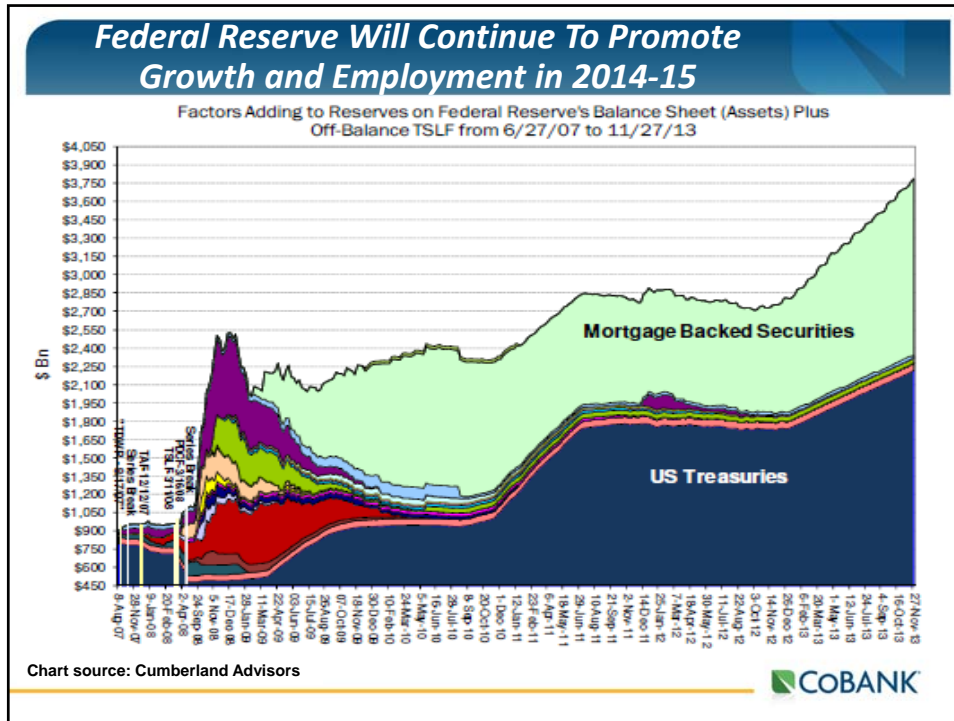
U.S. Treasury Department



U.S. Federal Reserve

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

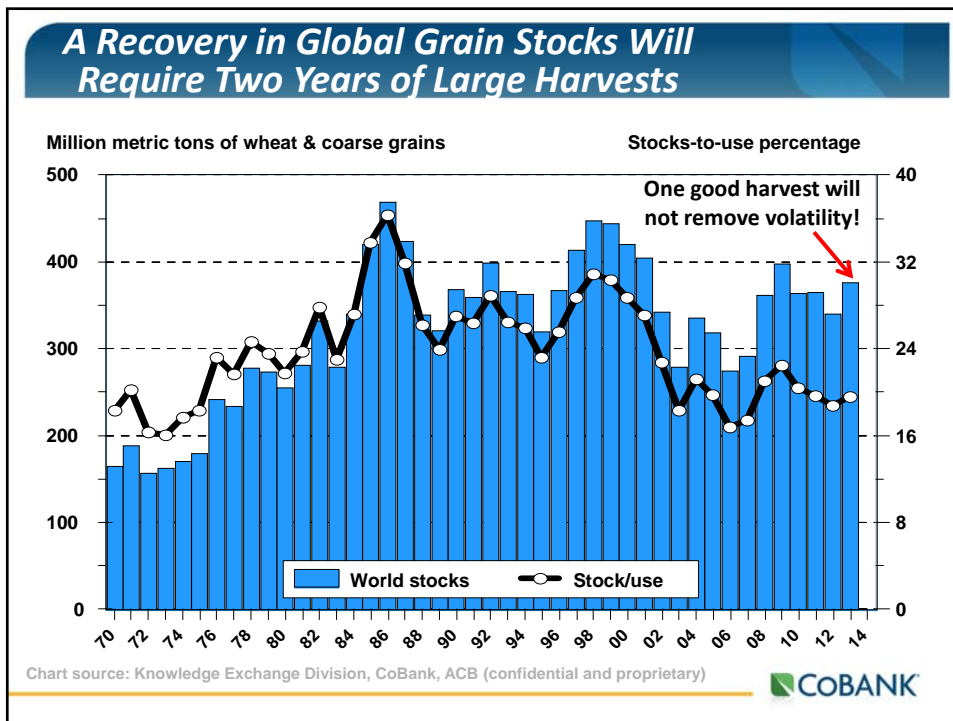





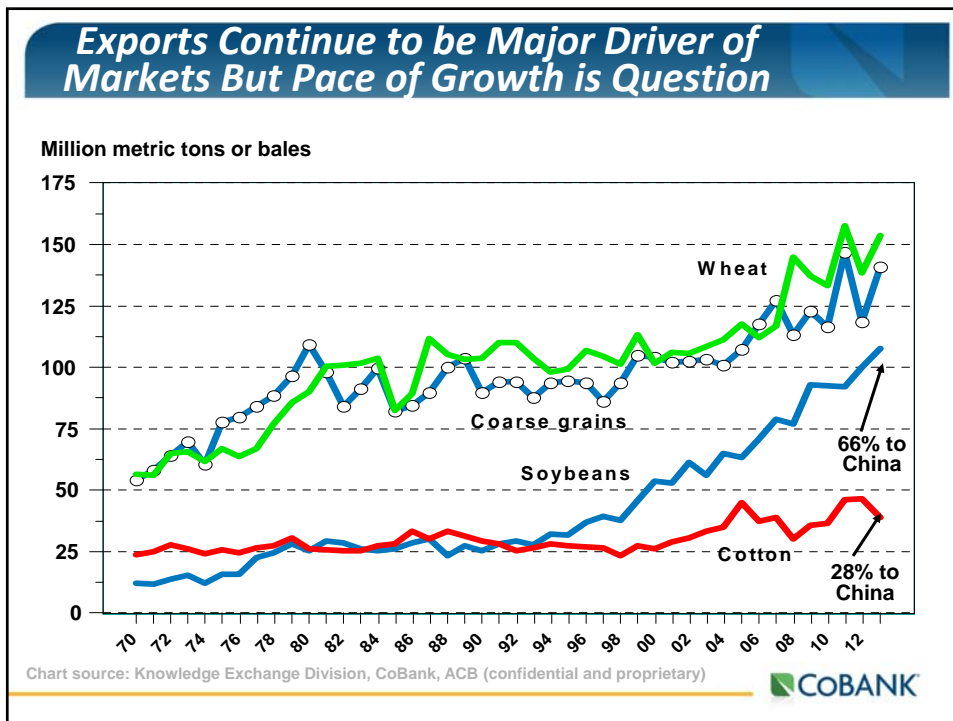
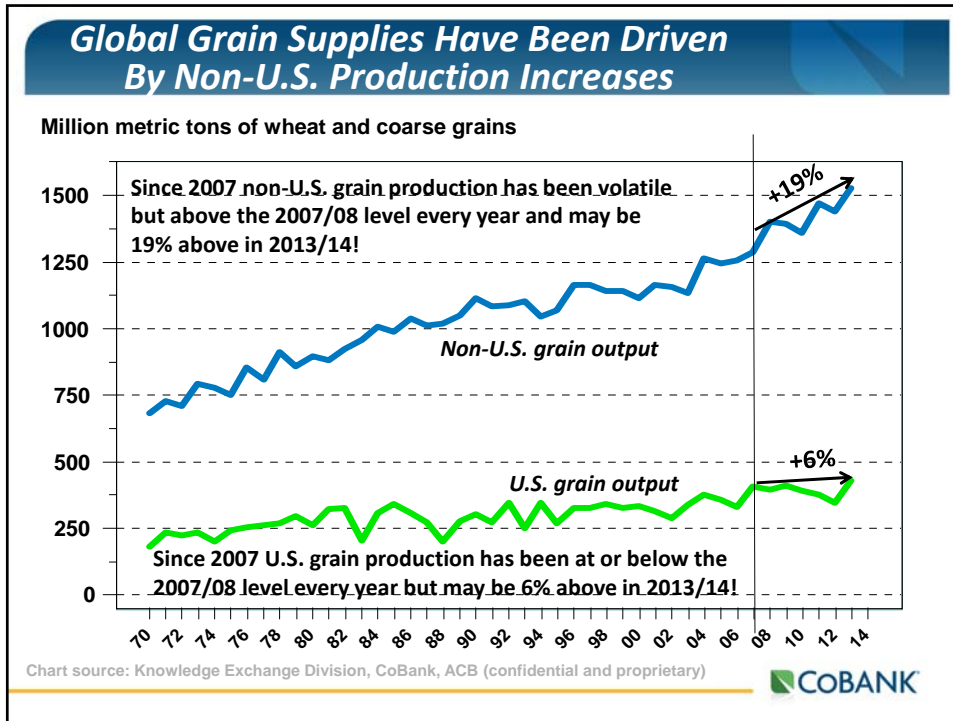
### 2013 Crop Prospects Are Signaling Transitions in Grain/Oilseeds and Animal Protein/Dairy

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

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**Reduced Coarse Grain Supplies and Large Wheat Feeding Have Boosted Wheat Market**



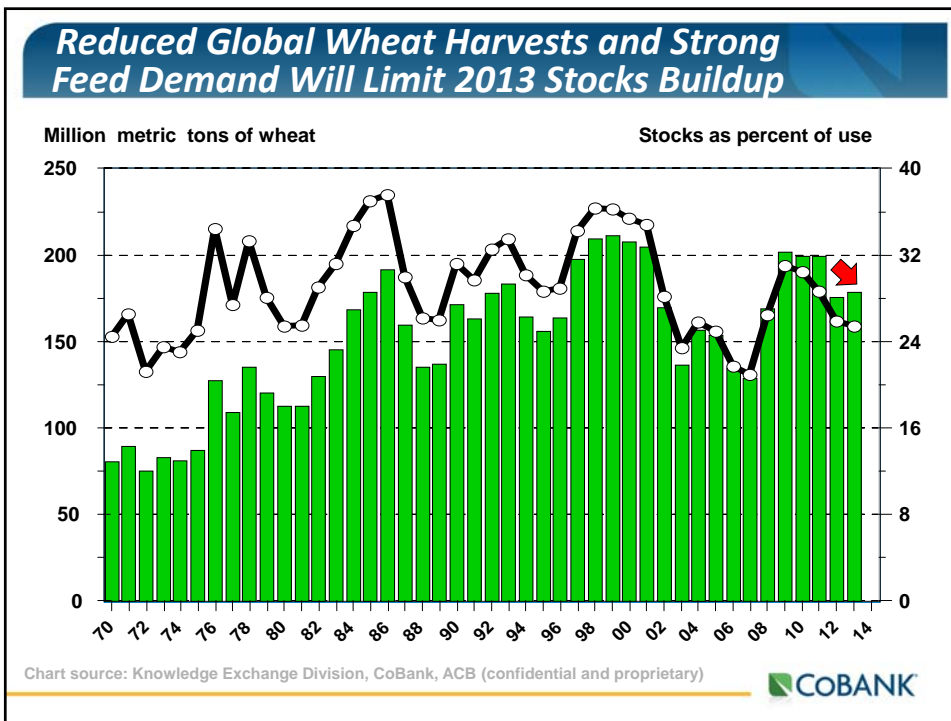
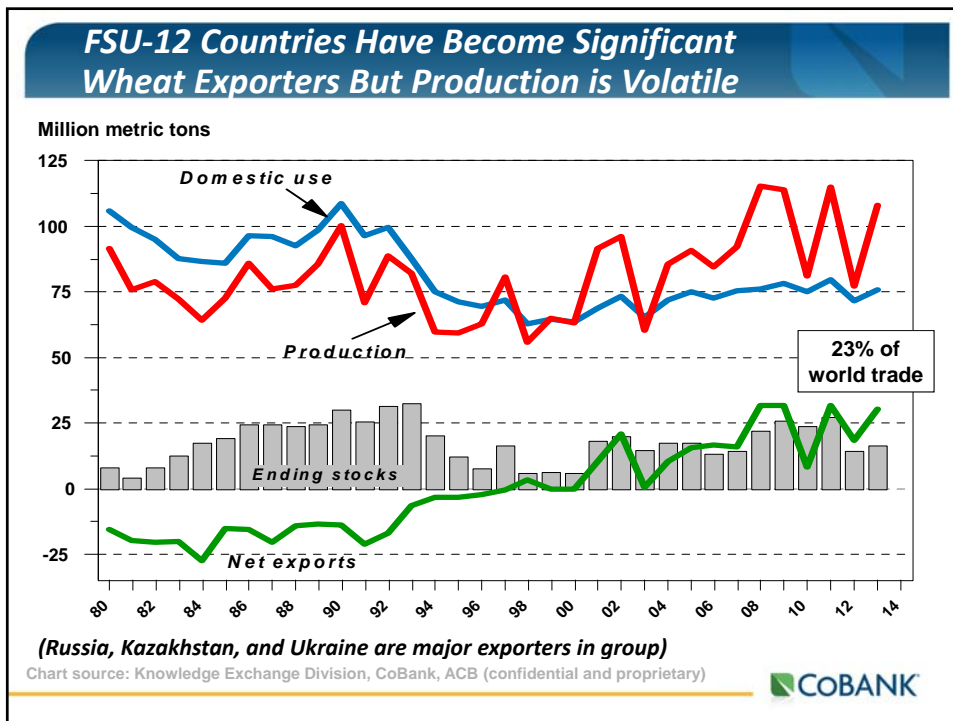
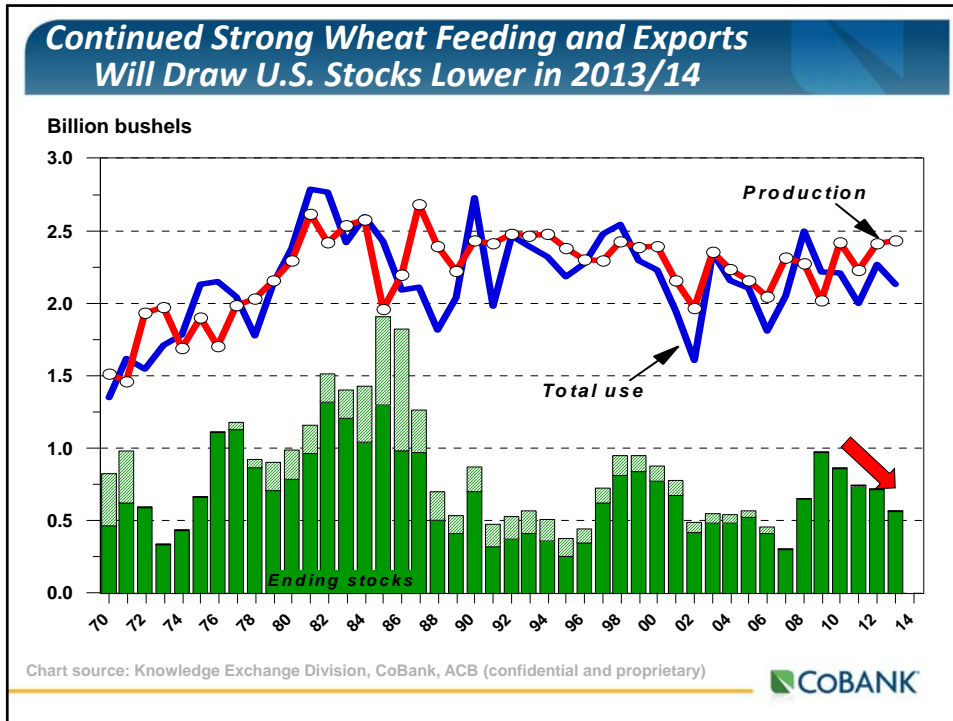


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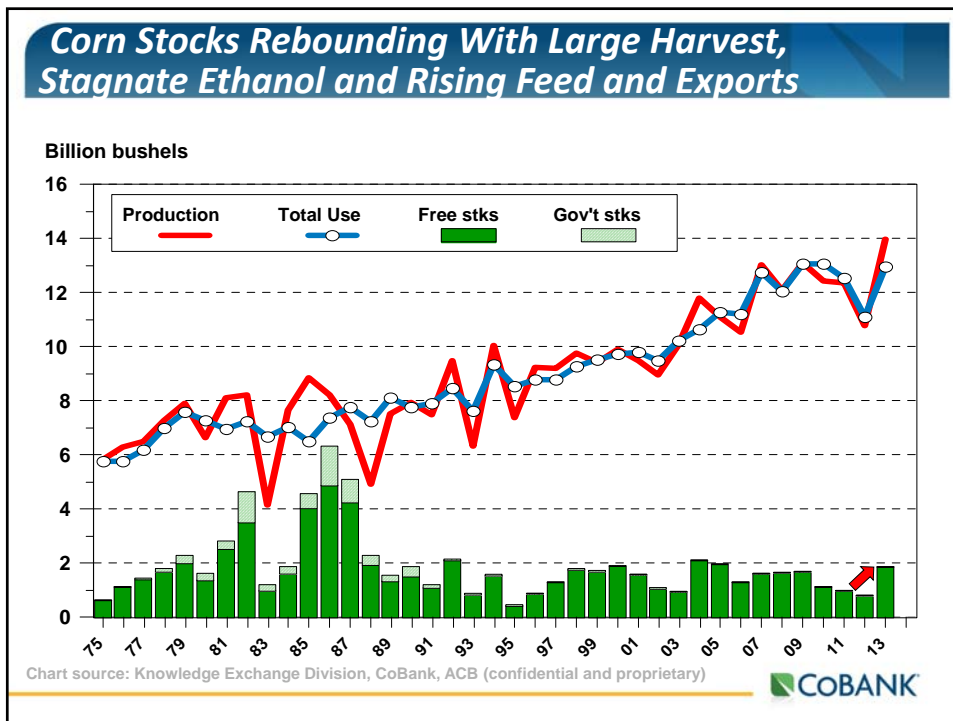



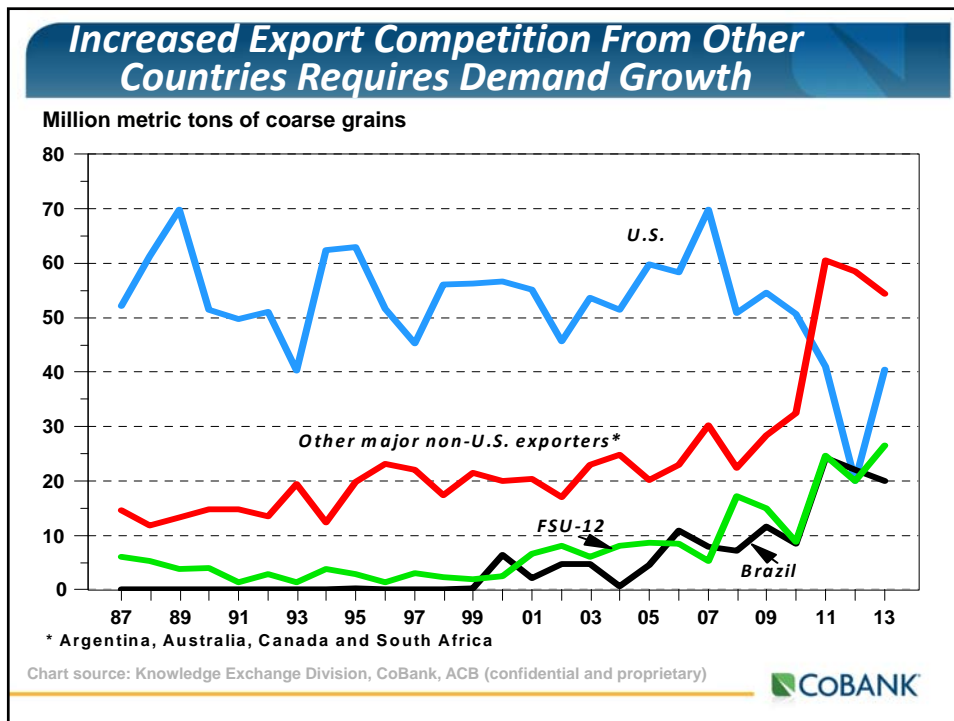
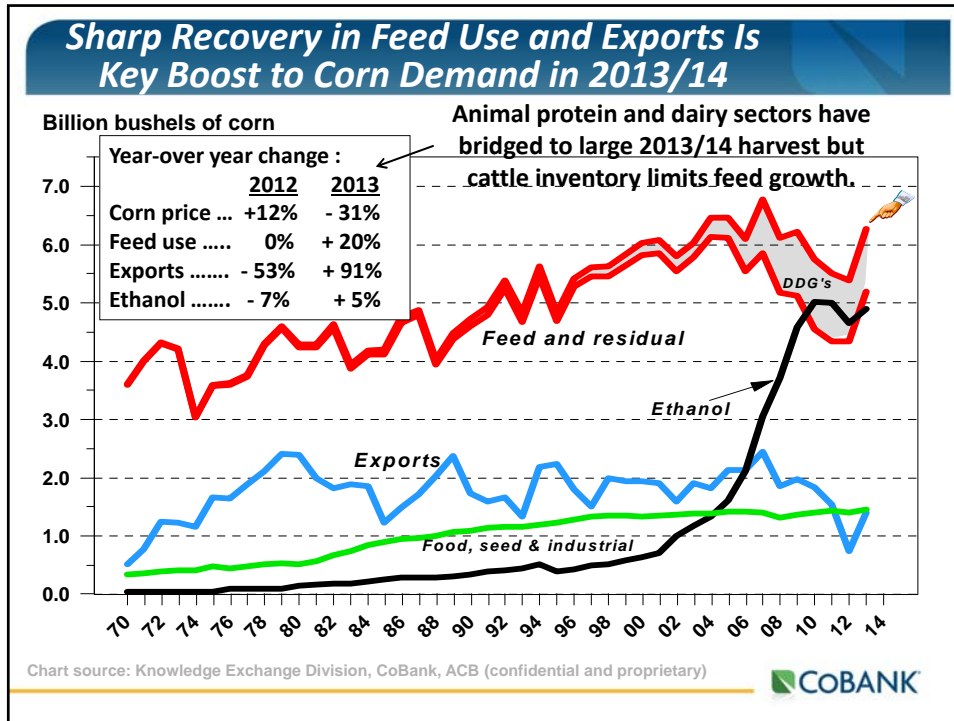


### Large U.S. Corn Crop Shifts Focus to Demand Side Concerns



Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

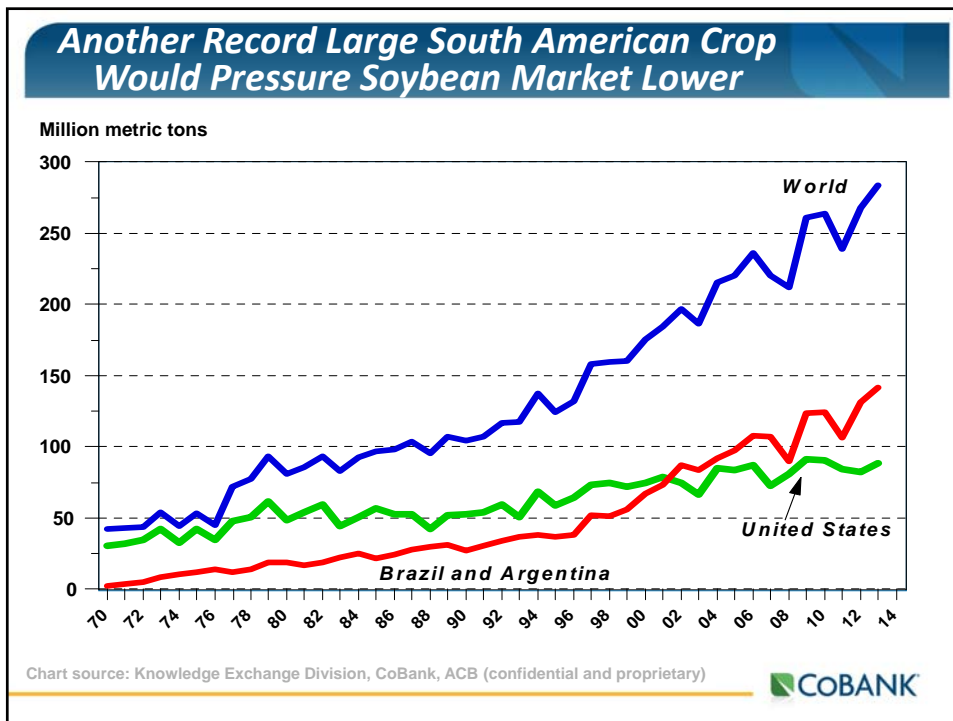



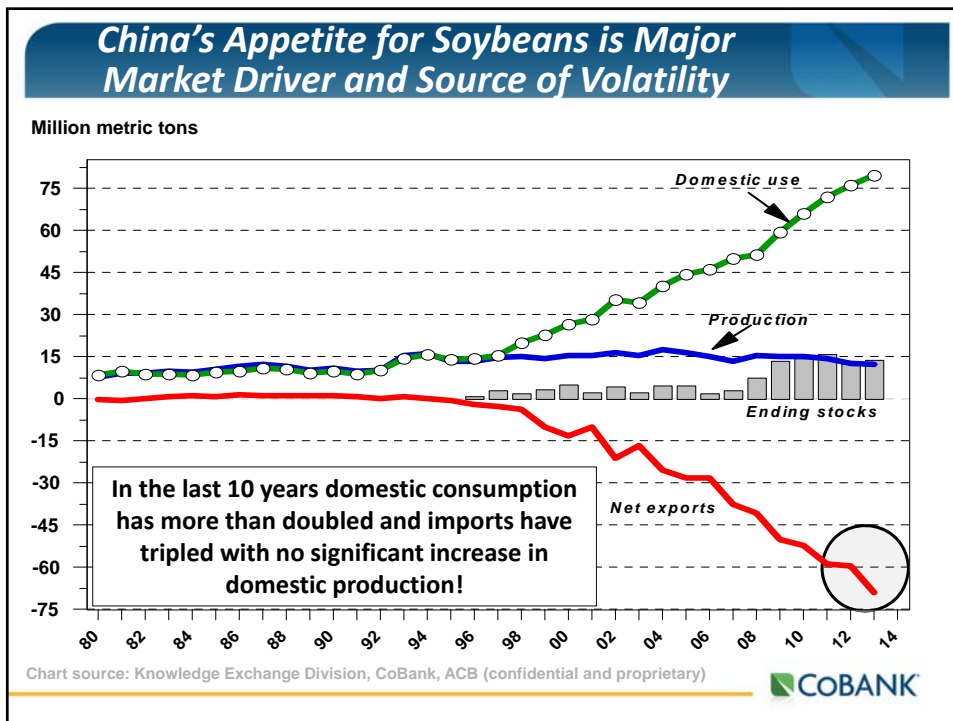
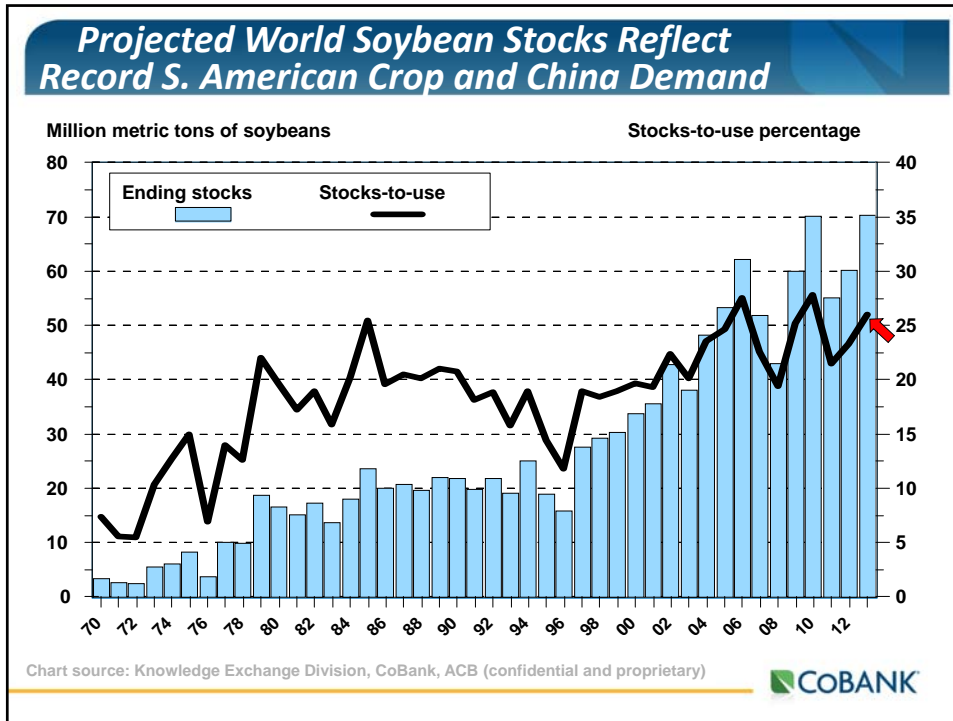


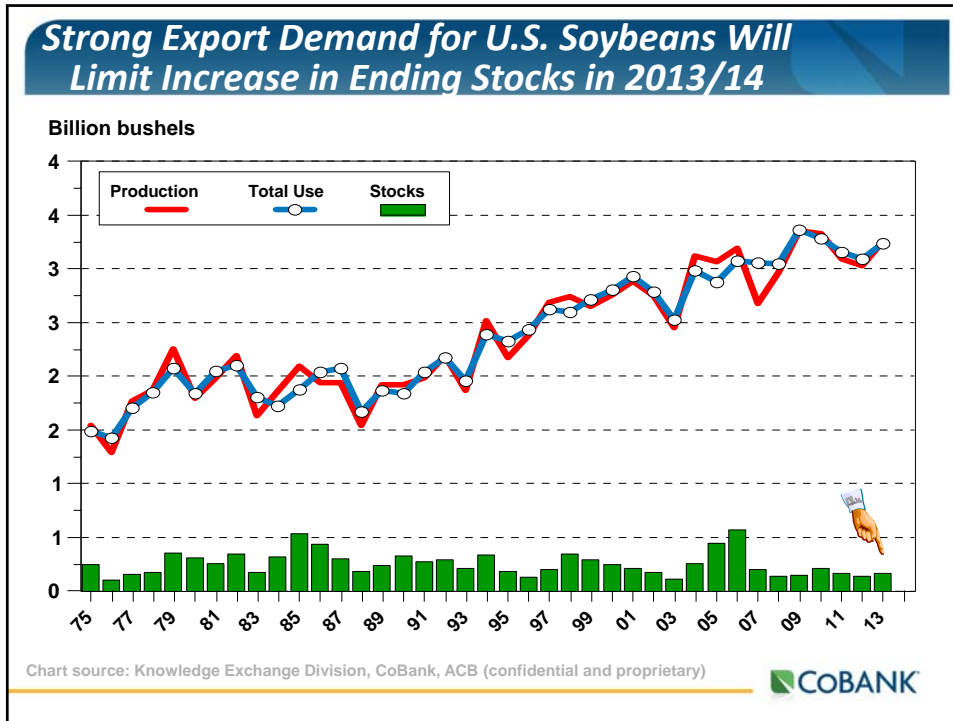
### Soybean Market Balancing Large South American Crop With China Demand



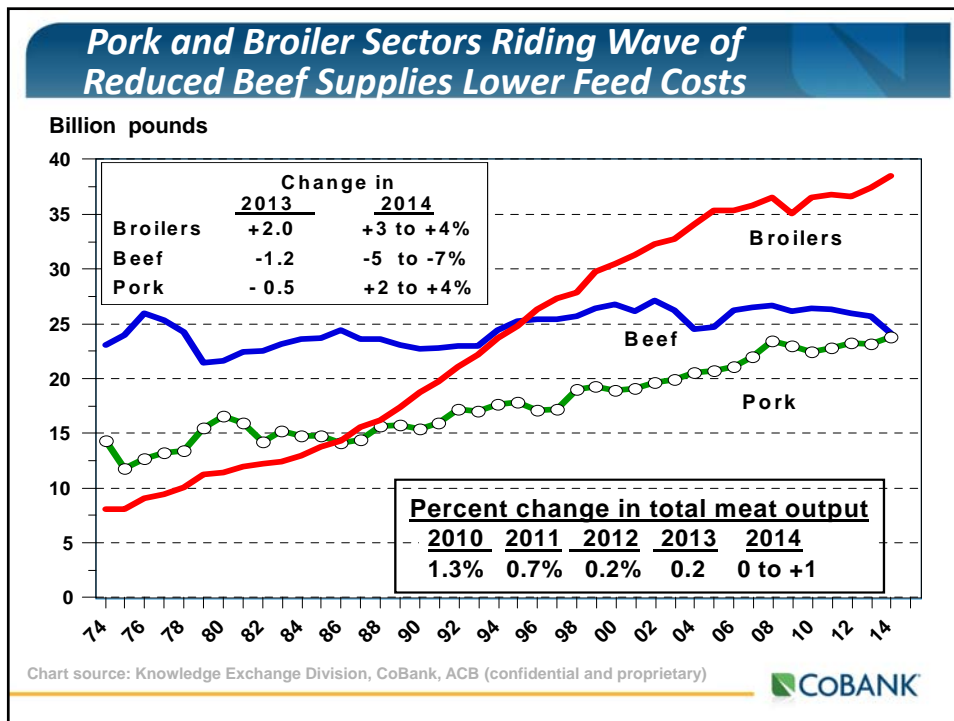
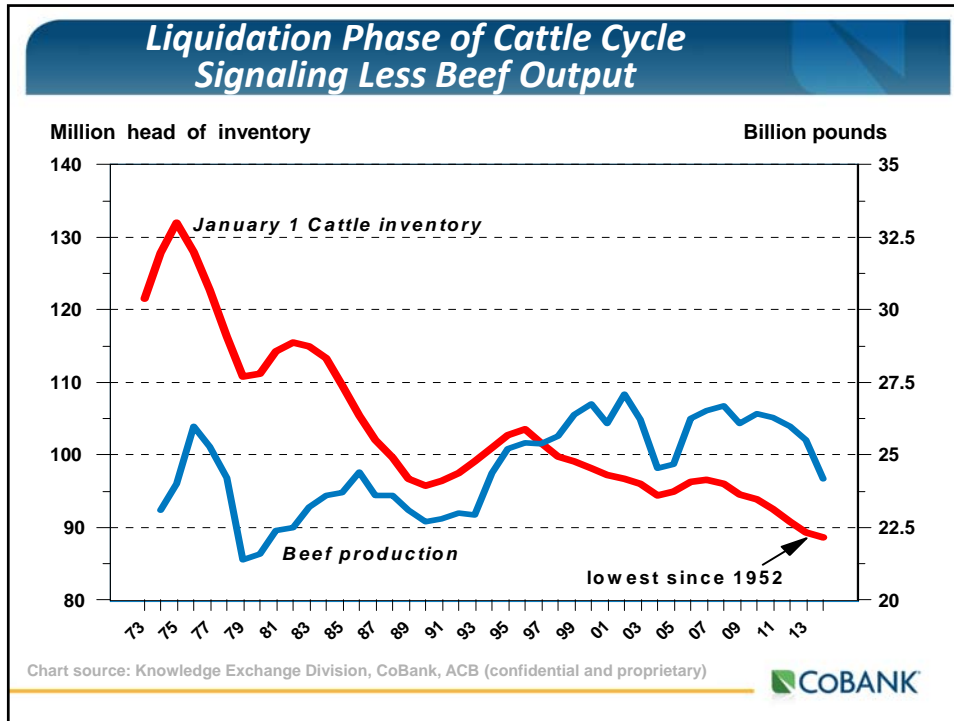
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)









**2013 Crop Prospects Are Signaling Transitions in Grain/Oilseeds and Animal Protein/Dairy**



**The Transition Path from Tight Supplies is Linked to South America, Demand Shifts and 2014 Crops**

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



**What Will Drive the Transition in 2014?**

- ✓ South American 2013/14 crop outcome; infrastructure issues.
- ✓ Growth rate of Chinese grain and oilseed demand.
- ✓ Rate of expansion in U.S. animal protein and dairy sectors.
- ✓ Global economic conditions, currency movements and capital flows impacting emerging markets. (Driven by shifts in fiscal, monetary and economic policies including trade.)
- ✓ Acreage realignments in the U.S., particularly corn/soybeans. (farm program incentives, prices & weather are factors.)
- ✓ Non-U.S. grain production, particularly in the exportable surplus countries.
- ✓ Global and domestic weather variability.

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

