



**FARMER  MAC**

***Farmer Mac Refresh:  
Current Economic Events &  
How They Impact Net Yields***

---

*December 2015*

# *Bio and Upcoming Information*

---



- Mike Schmid is the Trading Manager in the Capital Markets group at Farmer Mac
- Since joining in 2010 he has been responsible for debt funding, interest rate hedging and the rate lock desk



# *Federal Reserve Update*

---

- First interest rate hike since 2006
  - The Fed raised the funds rate by 0.25% on Wednesday
  - Expectations remain for a gradual rate increase cycle
    - Fed expects 2016 year-end funds rate at 1.375%
- Market reaction to rate hike was muted
  - Initial reaction to rate hike had Treasury yields mostly unchanged with stock markets rising on the news
- Further rate increases depend on incoming data
  - Inflation and job growth will be key for timing of future interest rate increases



# Summary & Market Trends

---

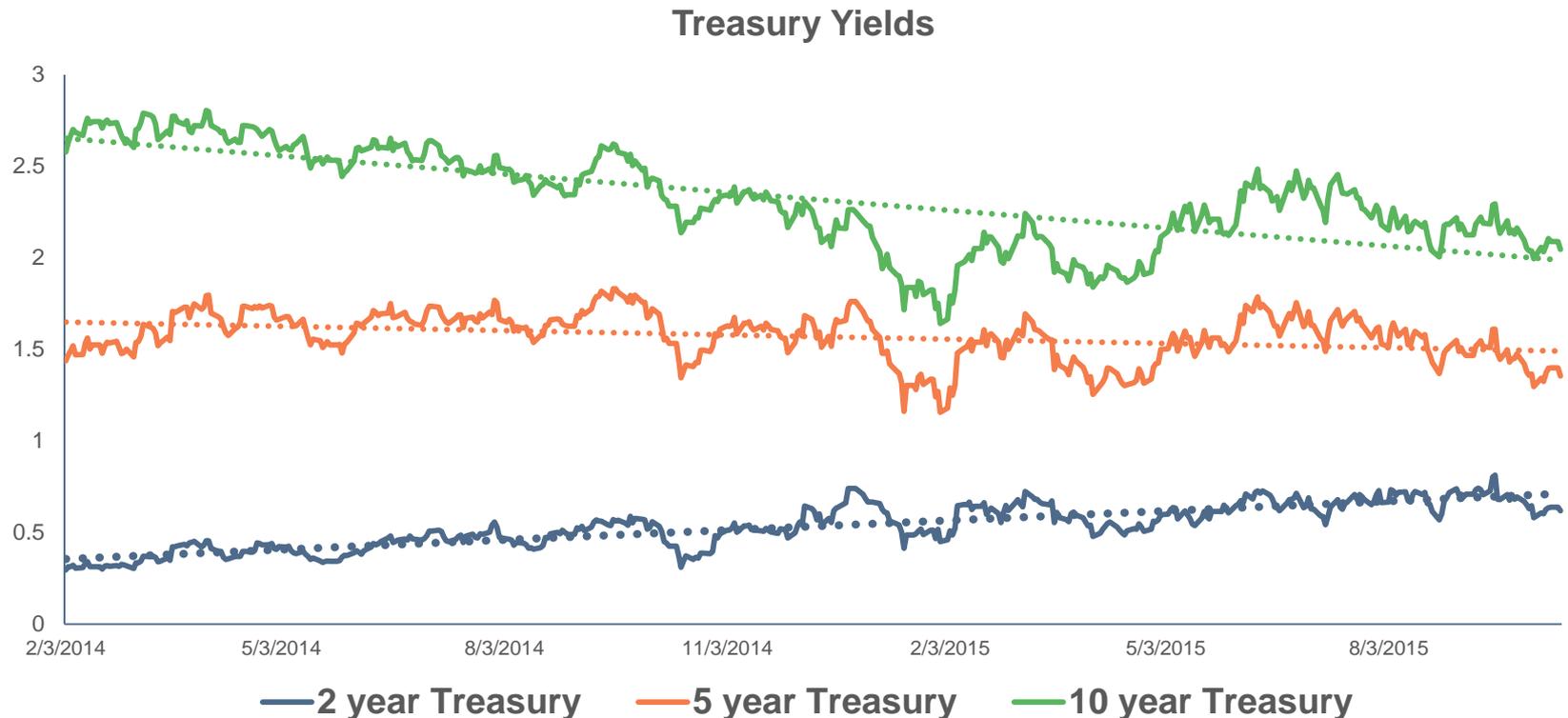
- Short term interest rates increased in 2015
  - 3-year and shorter yields have jumped 0.25% to 0.50% this year as market priced in the first interest rate hike since 2006
  - Longer term interest rates 5-years and longer have been more stable, rising 0.10% to 0.15% in 2015
- Job growth remains strong with an average 210,000 jobs added each month over the last year
  - The unemployment rate is at 5.0%, the lowest since 2008 and down from 5.7% in January
- 3<sup>rd</sup> quarter GDP slowed to 1.5%, from 3.9% in 2<sup>nd</sup> quarter
  - Weakness in the energy sector and the strong dollar weighted on overall economic growth





# *Interest Rates: Product Impact*

# Interest Rates: Recent Trends



- Longer-term rates have remained range bound while shorter term rates have been increasing
- Expectation of Fed rate increase primary driver for short term rates moving higher in 2015
- Longer term rates remaining somewhat stable due to low inflation and inconsistent growth



# Interest Rates: Product Impact

- Net Yields at highest levels of the year
  - USDA segment seeing strong demand in long term fixed products
  - Farm and Ranch seeing strong demand in hybrid ARMs and LIBOR floating rate products

Product	1/30/2015	9/30/2015	12/16/2015
Farm and Ranch 15-year Fixed	4.16%	4.47%	4.88%
Farm and Ranch 5-year ARM	3.10%	3.22%	3.79%
USDA 20 year Fixed	3.39%	3.74%	3.93%
USDA 5 year Reset	2.61%	2.76%	3.12%

- LIBOR-based reset product (1-month ARM, AgEquity) remain popular and benefit from low short-term rates
  - These products are much more sensitive to actions by the Federal Reserve than products with initial fixed rate periods greater than 5-years
  - 1-month LIBOR ARMs have the a lot of flexibility regarding conversion options to longer-term fixed rate products





# *Interest Rate Forecasts*

# Interest Rate Forecasts

- Economists expect interest rates to rise gradual over the next year
  - Most economists expect rates to rise between 0.75% and 1.25% over the next 12 months
  - Short-term interest rates are expected to increase more than long-term interest rates
  - Low inflation and stronger dollar are key drivers of interest rate increases proceeding at a slower pace
  - The Federal Reserve has characterized the rate hiking cycle as being gradual and data dependent

Interest Rate Forecasts	12/16/15	*3/31/2016	*6/31/2016	*9/30/2016
Overnight Fed Rate	0.50%	0.85%	1.05%	1.30%
3-month LIBOR	0.53%	0.70%	0.92%	1.12%
2-year US Treasury	1.00%	1.14%	1.34%	1.52%
10-year US Treasury	2.29%	2.45%	2.60%	2.71%

\*Note: Estimates pulled via Bloomberg consensus forecasts of Economists polled. Surveys include greater than 20 economists estimates however do not include the view of Farmer Mac's on staff Economist





*Questions?*

# *Additional Thoughts*

---

- New Farmer Mac Website
- eFarmerMac
  - Resource Library
    - New Seller/Service Guide
    - Underwriting Grid
- New AgAssist Underwriting Guidelines
- New 25 and 30-Yr Fixed Rate Products
- Subscribe to “The Feed” at “News & Events”
- Next Refresh Webinar: January 11, 2016
  - “Positioning for Success in the Economic Reset” with Dr. Dave Kohl

