Farmer Mac Refresh

THE FEED by FARMER MAC

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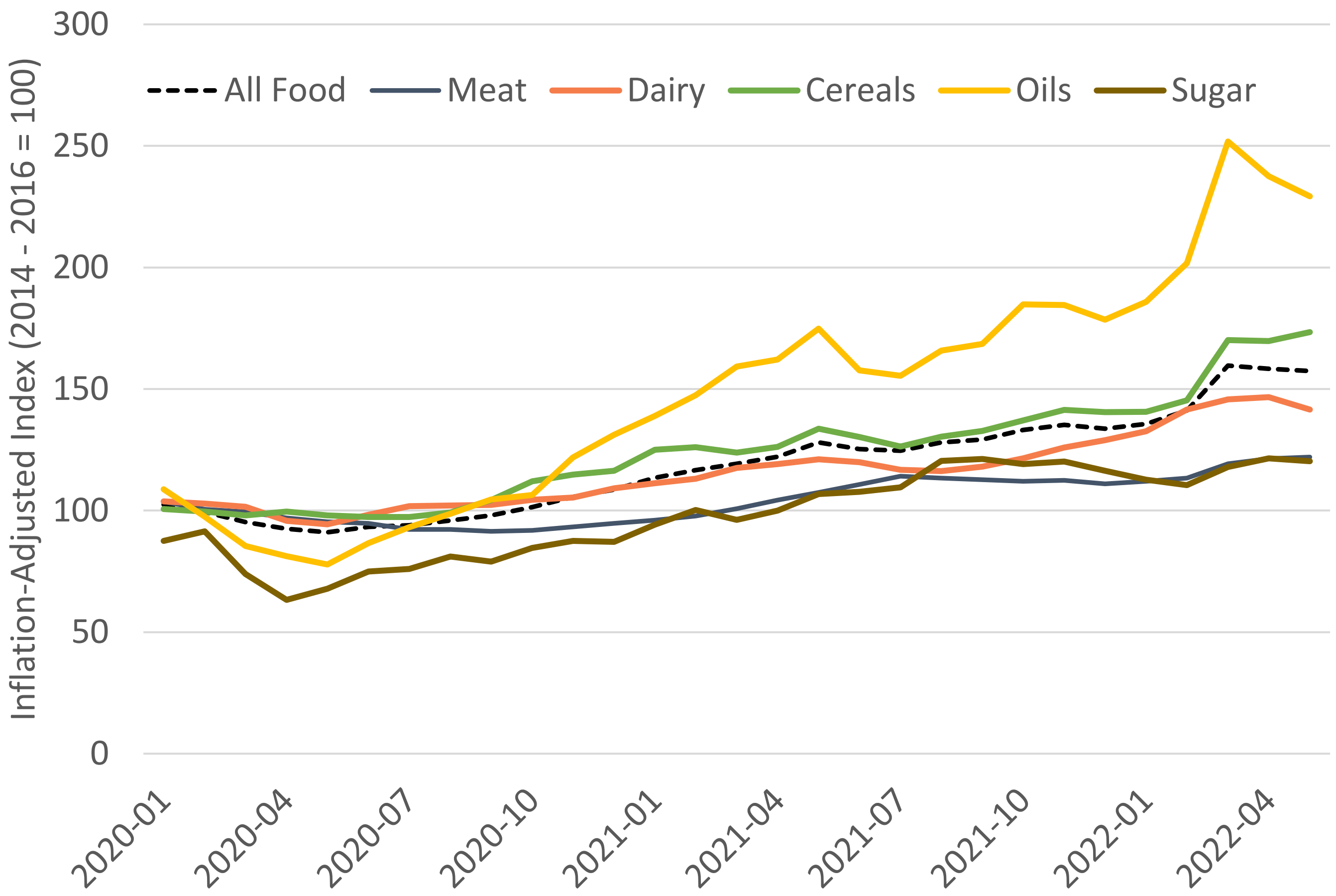
Agenda

- Highlights from the analysis
- Why they are important for producers and lenders alike
- Other news and factoids
- How you can access this and future editions
- Q&A

Highlight 1: Global Food Insecurity on Lower Supply, Higher Prices, and Export Risks

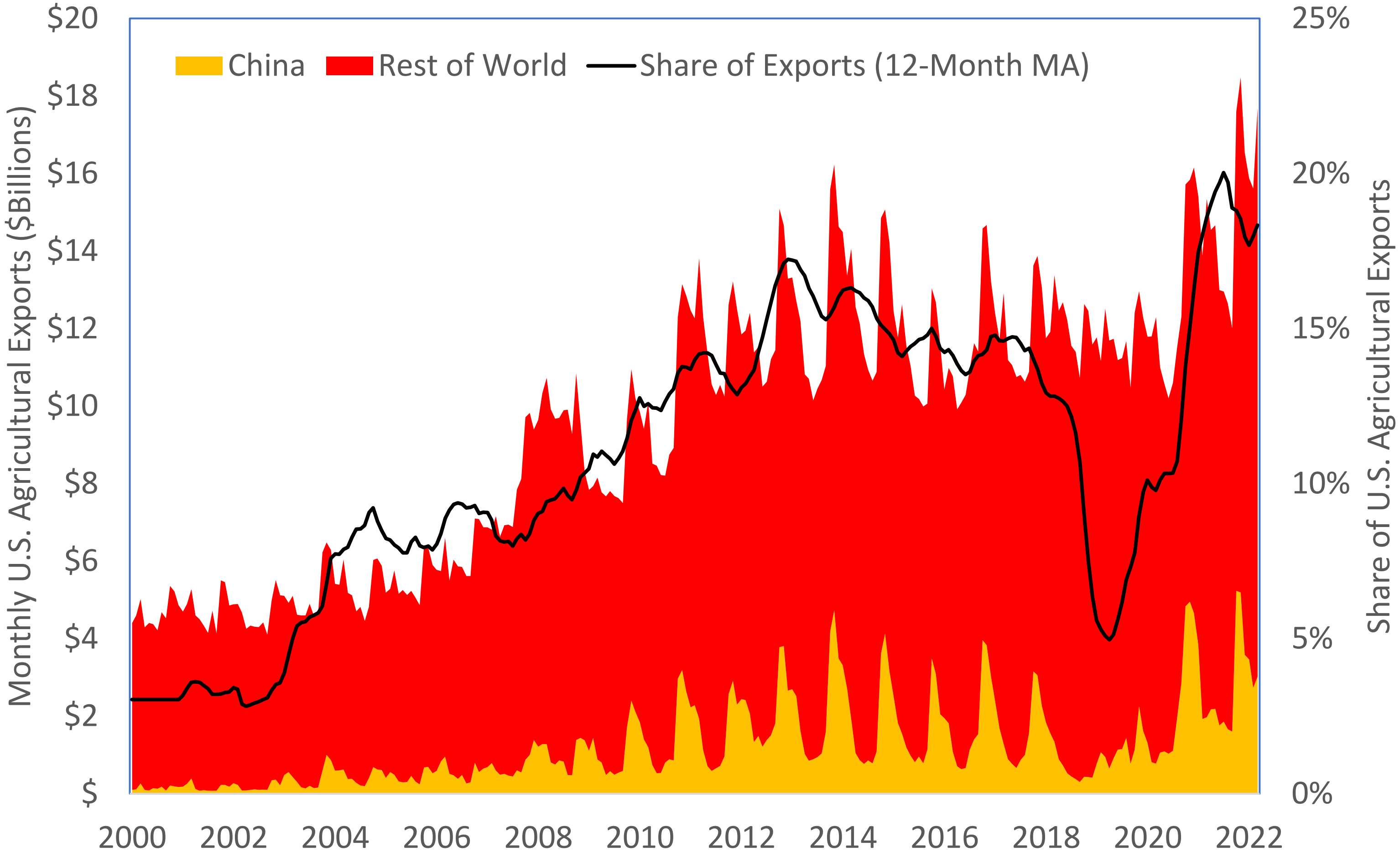
- Supply chain stress and disruptions to Ukraine crops cause global grain shortages
- Global food prices set new highs in June but starting to show signs of slowing in July and August on lower commodity prices
- Pain felt most in low-income countries where a higher percentage of
- Major export markets holding up but some threat from strengthening U.S. dollar
- Luckily Canadian, Mexican, and Chinese currencies remain strong again U.S. dollar



Source: Food and Agriculture Organization of the United Nations Food Price Index

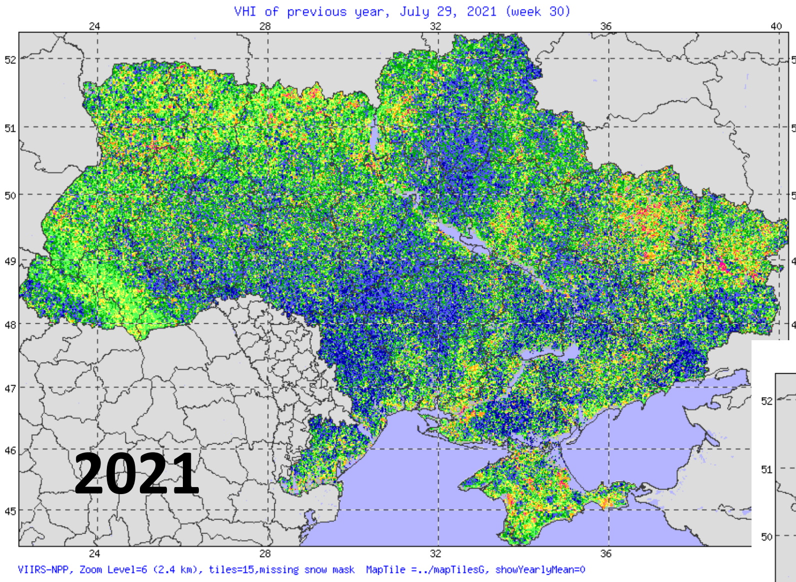
Highlight 2: The China Challenge

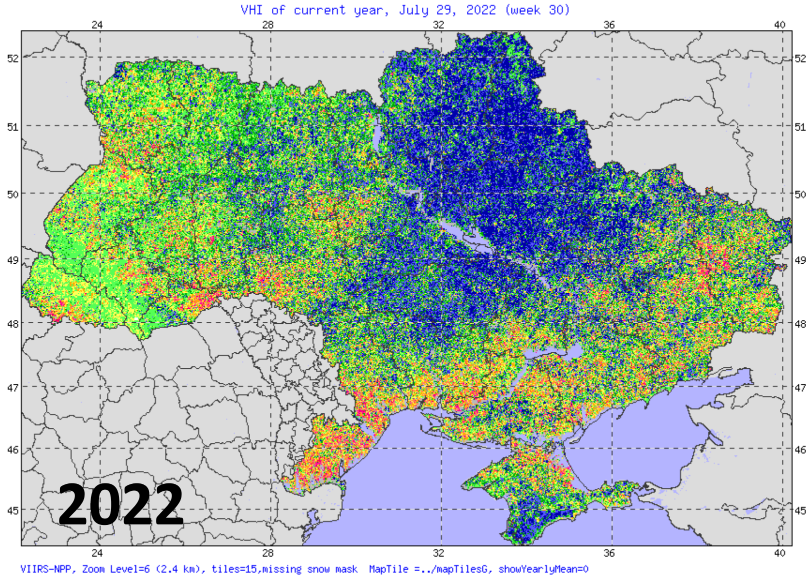
- China accounts for approximately 20% of U.S. ag exports (by value)
- However, the percentage is volatile and can be politically influenced (like in 2018/19)
- Chinese leaders are pushing for greater self-reliance to improve food security and costs
- But there are real constraints on what and how much China can grow itself



Source: USDA FAS Global Agricultural Trade System Database

Highlight 3: Grain Supply Uncertainty

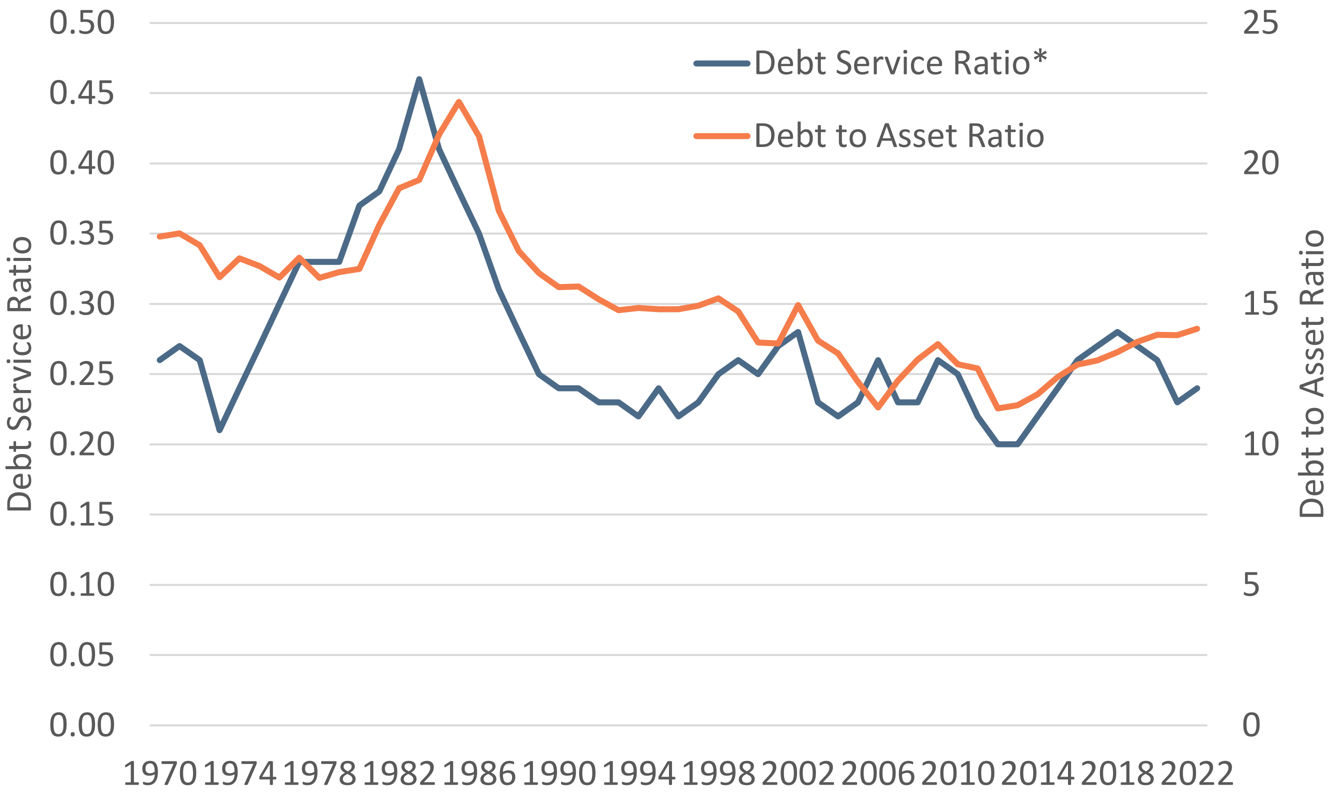




- Ukraine is a big exporter of wheat and corn, and production is likely to be cut significantly in 2022
- Corn/Soybean crop quality on par with 2021 levels but wheat crop is significantly improved on drought ease in Montana
- Prices have moderated in last 30 days due to better weather and the inking of a deal to open shipping lanes for Ukrainian grain
- All eyes on Brazil for both price and next crop year

Source: NOAA Satellite Vegetative Health Data

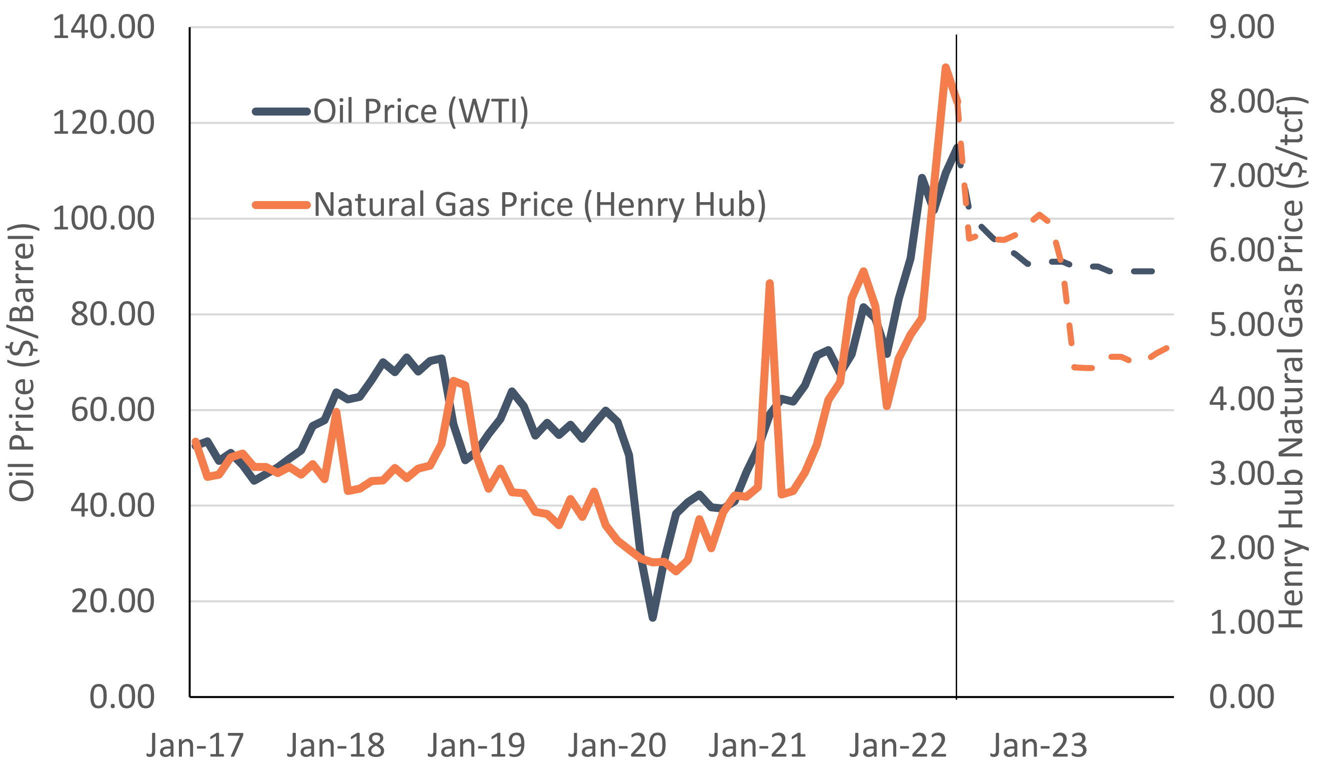
Highlight 4: Ag Lender Health



Source: USDA ERS Farm Income and Wealth Statistics. *Note: Debt service ratio refers to interest and principal payments divided by cash receipt and government income

- Despite volatility in commodity prices and interest rates, ag lenders and borrowers are on solid ground
- Lower leverage at the bank and borrower balance sheet give more flexibility and options for sector participants compared to prior cycles
- Ag Lender liquidity and capital levels are at multi-decade highs, implying a steady outlook for the ag credit cycle

Highlight 5: Energy Market Volatility is a Driver of Inflation

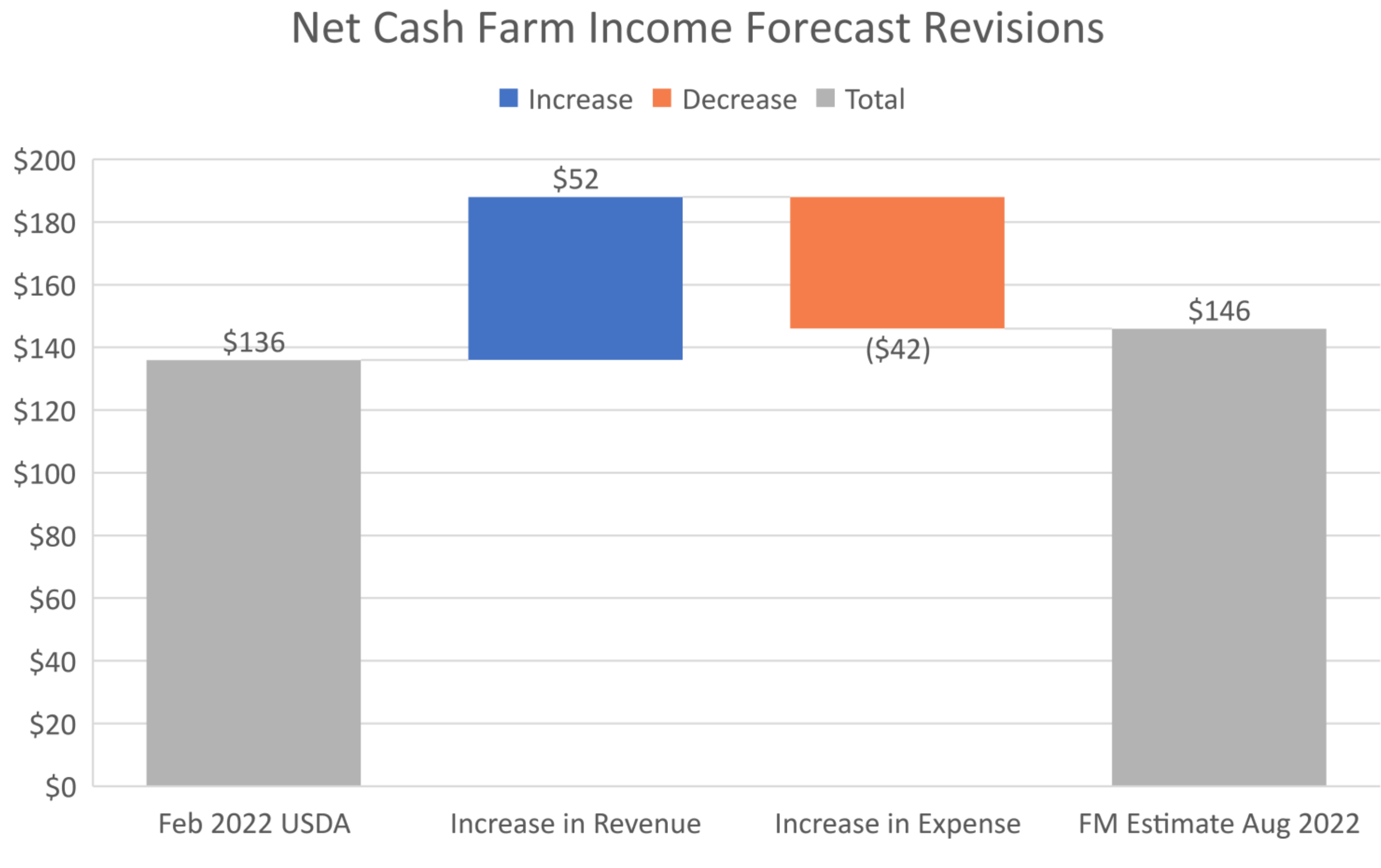


Source: U.S. EIA Short-Term Energy Outlook, July 2022

- After nearly a decade of moderation, energy prices spiked in 2021 and 2022
- Surging demand, pandemic-reduced supply, and a lack of refining capacity are the primary drivers of the surge (the Russia/Ukraine was didn't help things much either)
- More supply is needed but there is no easy answer
- U.S. must prioritize long-term investment in multiple sources of energy and electricity

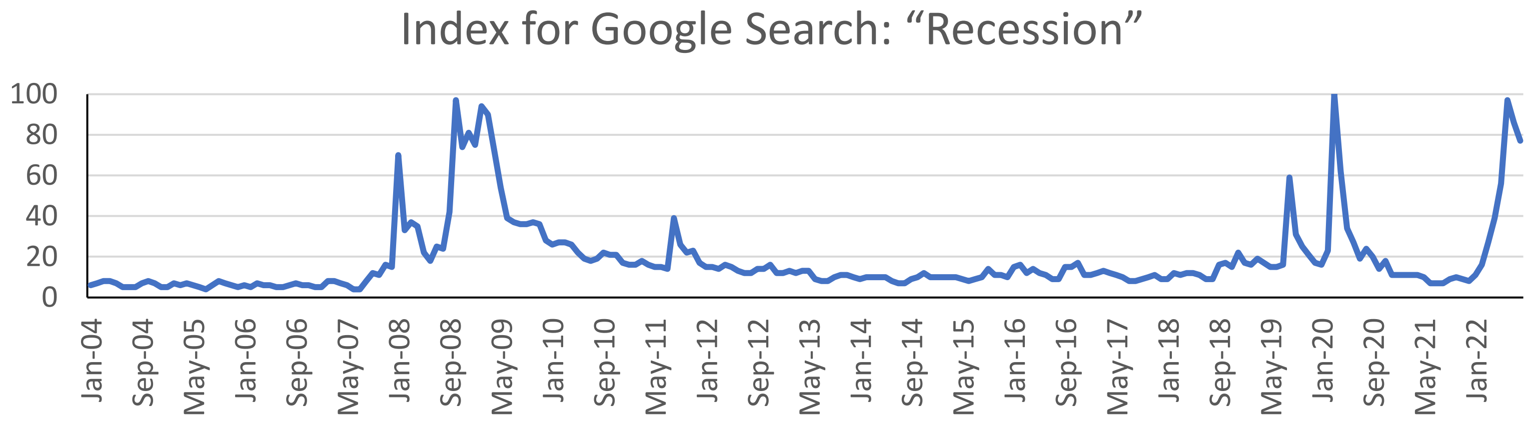
In Other News 1: Farm Income Pressured by Costs but Likely Strong in 2022

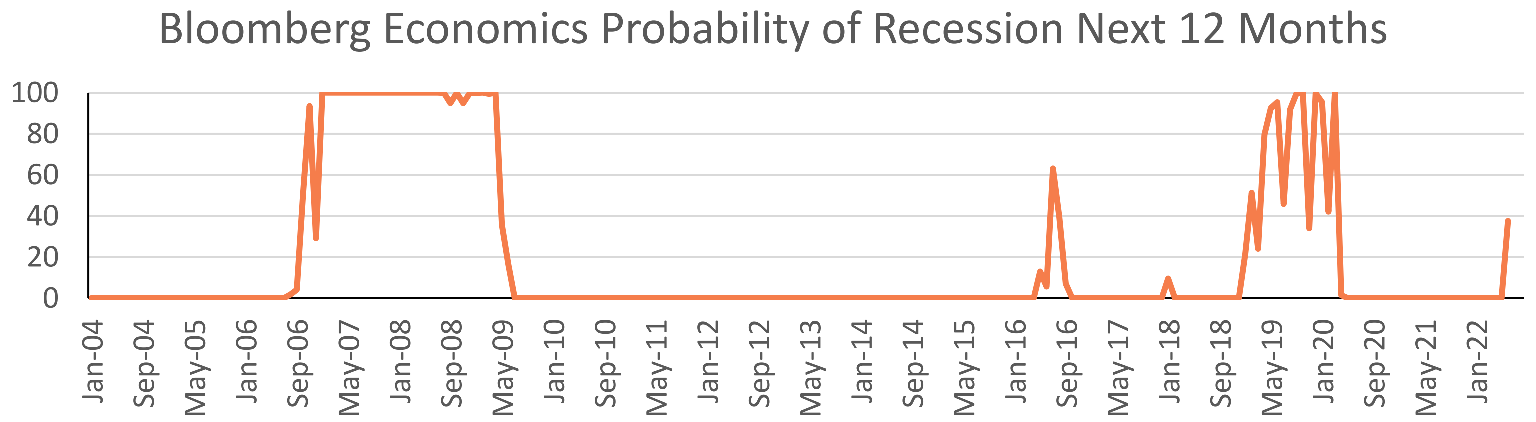
- USDA ERS' farm income release is 3 times per year and relies on WASDE for income forecasts
- Futures-derived prices suggest that cash receipts will fall below super cycle era receipts but will still be stronger than 2021 levels
- Higher cash receipts offset the rise in fertilizer, feed, labor and interest costs
- USDA releases next 2022 estimate on September 1
- No 2023 look until February 2023



Source: USDA NASS Quickstats, USDA OCE WASDE, Author's Calculations

In Other News 2: Global Recession Risks



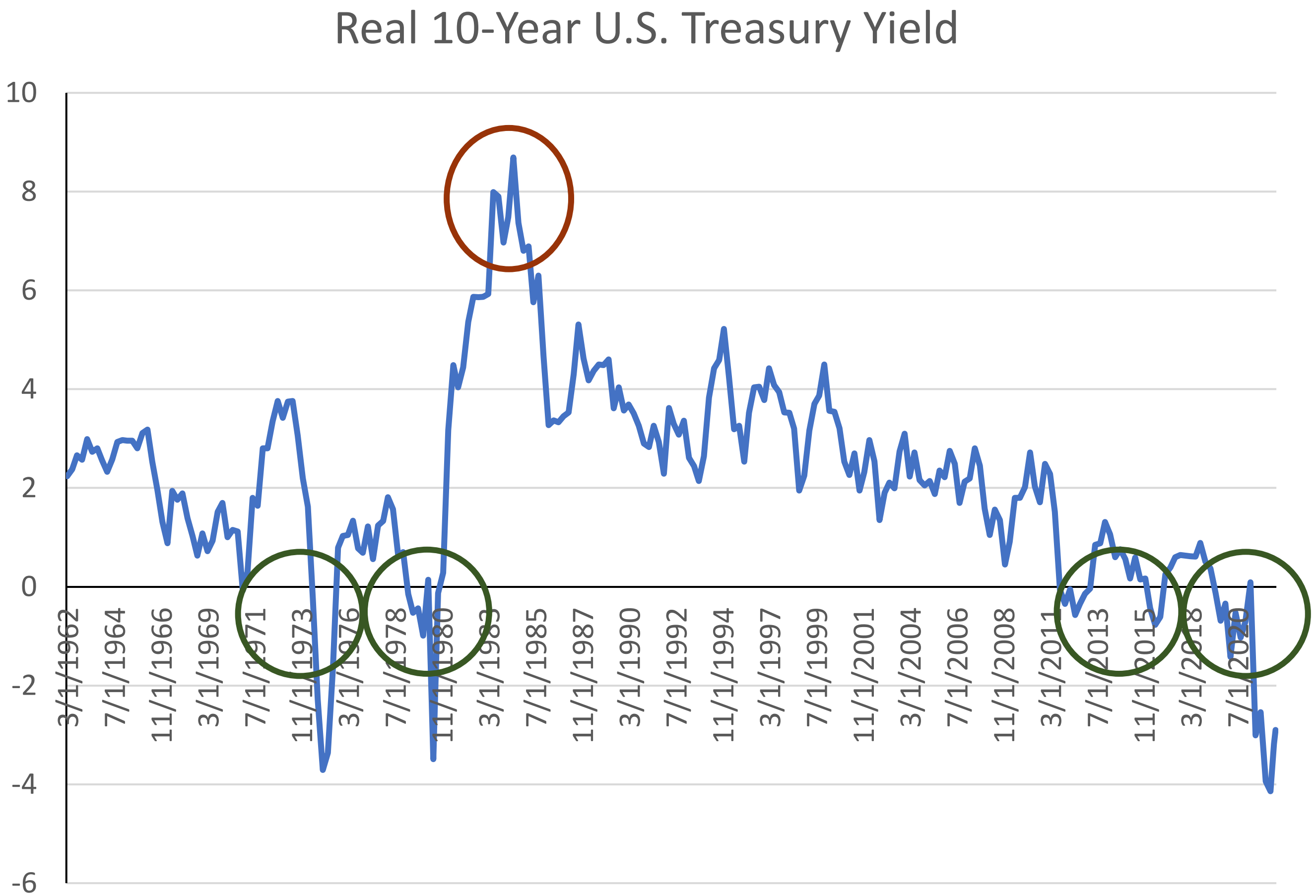


- Central banks sought to slow inflation by raising interest rates to slow demand around the globe
- Business investment, housing, and inventories have seen the brunt of the slowing
- Negative real U.S. GDP growth in Q1 and Q2
- All eyes on the U.S. consumer this fall
- IMF calls for global grind in 2022 and 2023 (China, Mexico greater threat to Ag Exports)

Source: Google Trends, Bloomberg Terminal, Bloomberg Economics

In Other News 3: Real Rates Still Negative but Normalizing

- Real U.S. Treasury is 10-year yield less core inflation
- Only six times has the real 10-year UST gone negative
- Lowest level in recorded history in March 2022 just before Fed started raising rates
- Assets tend to rise in value during low/negative real rate environments and fall in high/rising real rate
- Fed has a narrow path to walk to get back to 1-2% real rates



Source: Bloomberg Terminal

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Thank You!

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