Connecting the Dots…

Washington & Global Issues Impacting Agriculture

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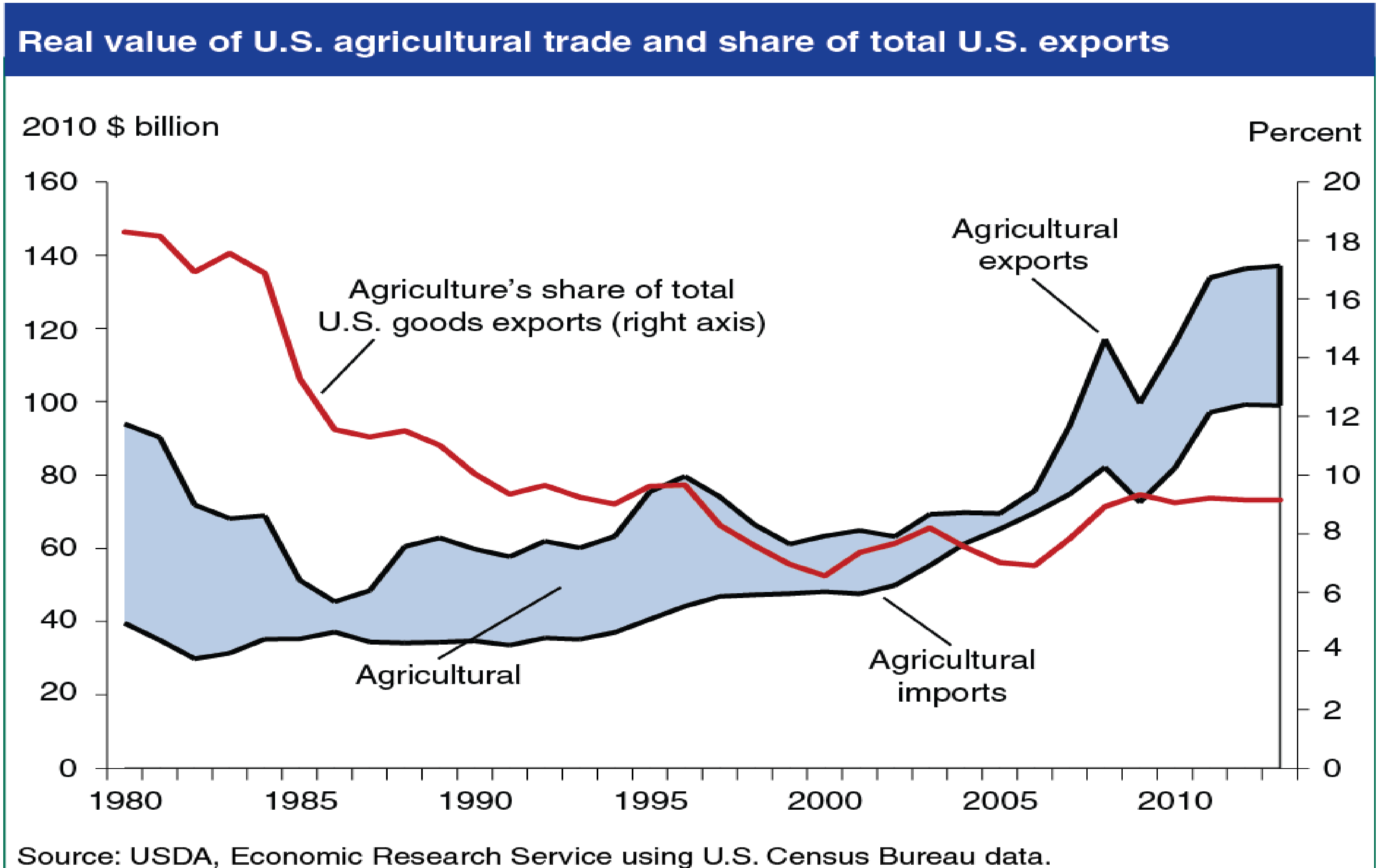
Connecting the Dots on Risks

- ✓ **ECONOMY:** World & U.S.
- ✓ **WILD CARDS:** International, Budget, Debt Limit
- ✓ **ELECTIONS:** House, Senate, States, President 2016
- ✓ **OBAMA:** SOTU, Executive Orders, Power of veto
- ✓ **ENERGY:** Prices, XL Pipeline, RFS
- ✓ **TAX REFORM:** Possible TY, more likely after Obama
- ✓ **TRADE:** TPA, TPP, Cuba, COOL, Mexico sugar
- ✓ **FARM POLICY:** Current farm bill, next farm bill

Importance of Ag Trade

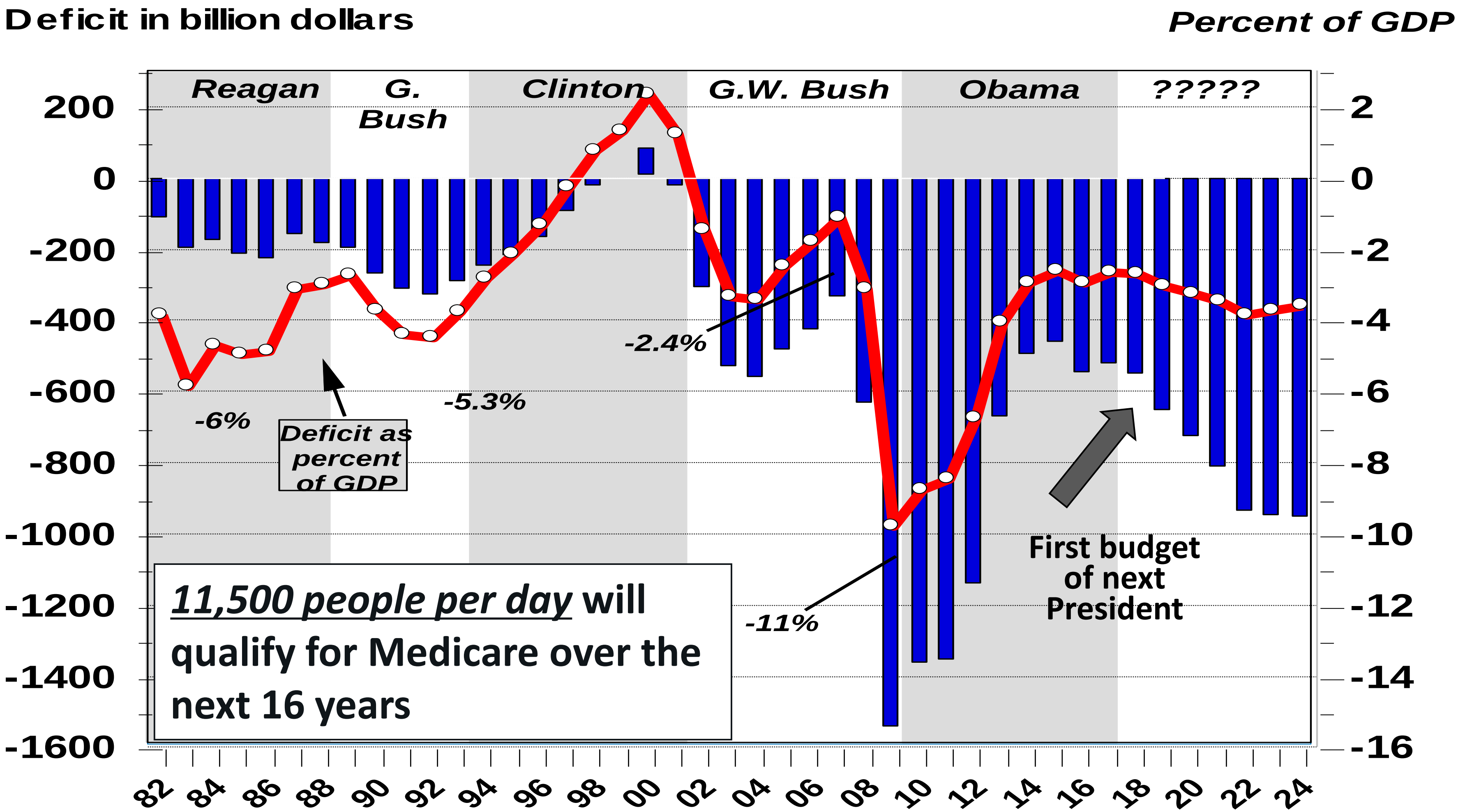


U.S. Dollar Continues to Strengthen Against Broad Range of Currencies

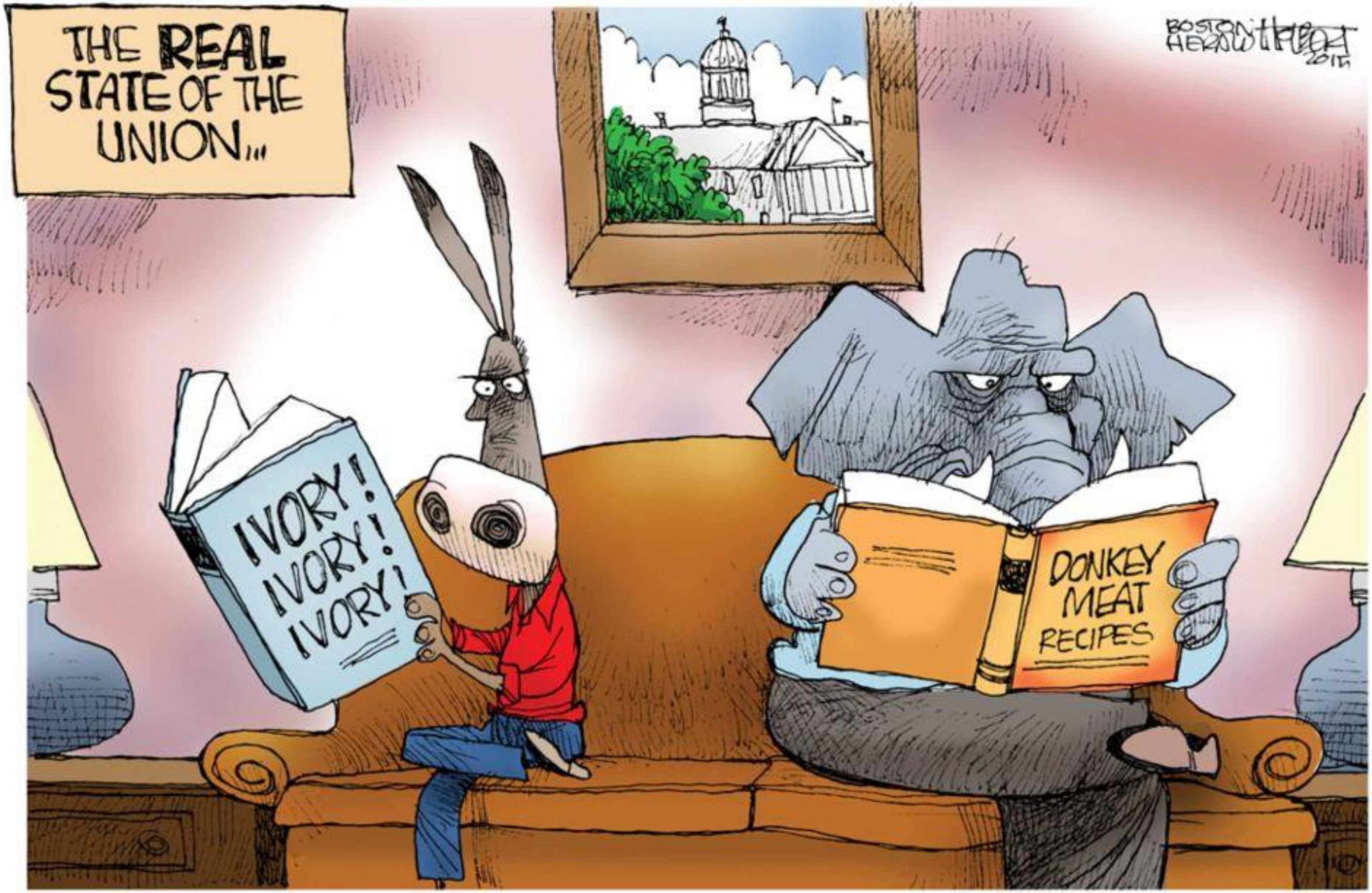
Currency to US dollar:	Change from 2013	2012
China	-1%	+1%
Euro	-11%	-6%
Japan	-16%	-43%
Brazil	-10%	-24%
Australia	-7%	-24%
Canada	-7%	-15%
Russia	-62%	-73%
Argentina	-35%	-75%
Mexico	-8%	-10%

* Currencies weighted by relative market importance to ***total U.S. trade***.

Short Term Deficit Relief Means Long Term Revenue and Spending Changes Are Post-2014



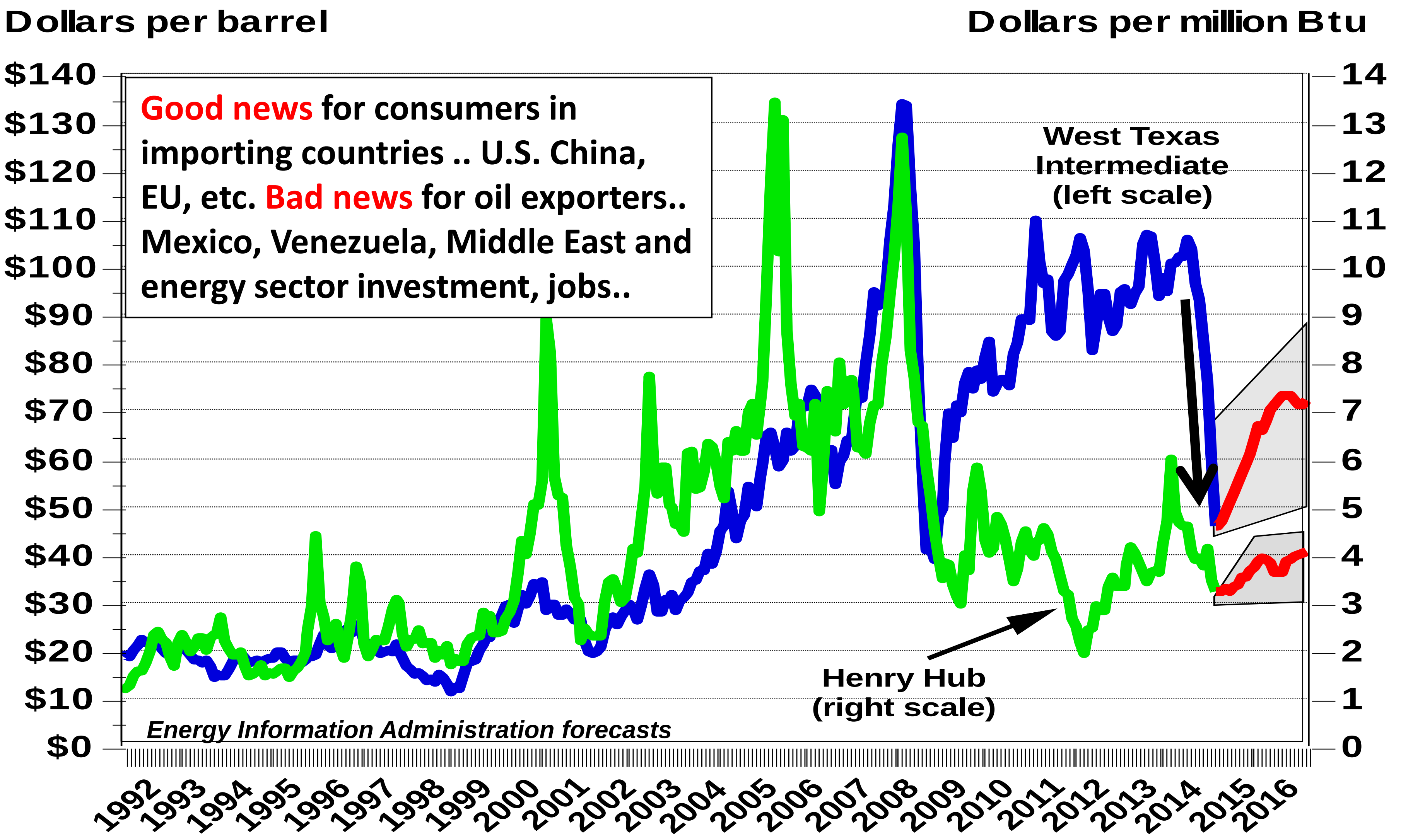
Source: Congressional Budget Office (August 2014), BEA and Treasury Department


THE REAL STATE OF THE UNION...
IVORY! IVORY! IVORY!
DONKEY MEAT RECIPES

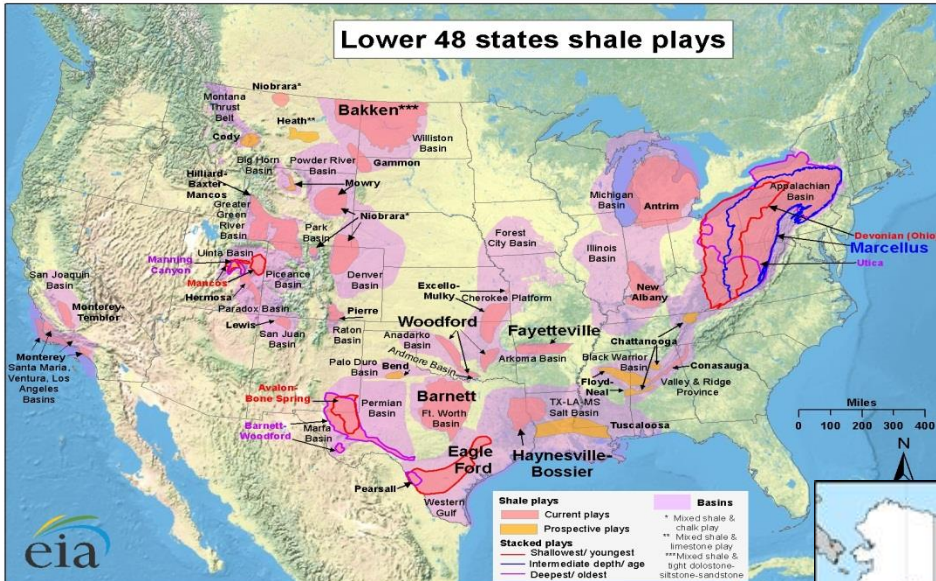
State of the Union Message

- ✓ Theme: 'Middle Class Economics'
- ✓ Spending: $235 billion in new spending proposed
- ✓ Taxes: Hike cap gains rate, new inheritance taxes
- ✓ Keystone: Some give if broader focus
- ✓ Trade Policy: Push for TPA, TPP
- ✓ Veto pen: Ready for use… immigration reform, etc.

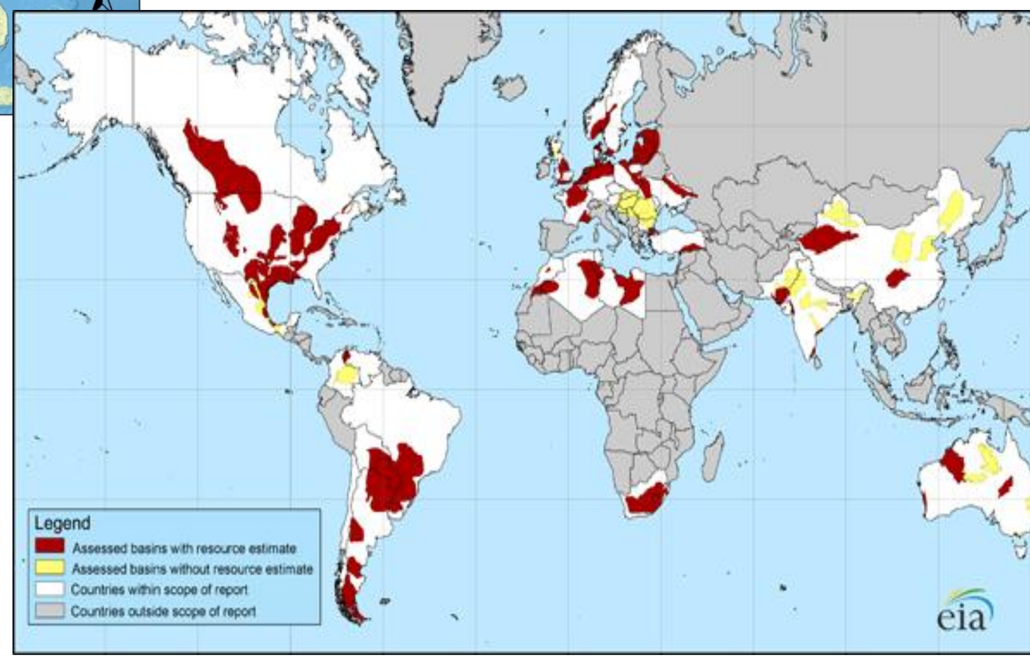
Energy Sector Was Investment Driver But Becomes Consumption Stimulus in 2015



New Energy Paradigm is a Global Event



Source: Energy Information Administration based on data from various published studies.
Updated: May 9, 2011



A 50 percent increase in recoverable global gas supplies?? Implications for geopolitical balances…

Chart source: Energy Information Administration

Agenda for the GOP-Controlled Congress

- ✓ **Budget resolution, reconciliation will be vehicle**
  - ✓ **Obama's FY 2016 budget proposals Feb. 2**
  - ✓ **Again proposes cuts for crop insurance**
  - ✓ **Watch House, Senate floor amendments**
- ✓ **Health care reform: Moves to repeal will fail; changes?**
- ✓ **Trade Policy Issues: TPA, TPP, COOL**
- ✓ **Infrastructure, transportation spending**
- ✓ **Return to "regular order" in Senate**

Keys in Tax Extenders

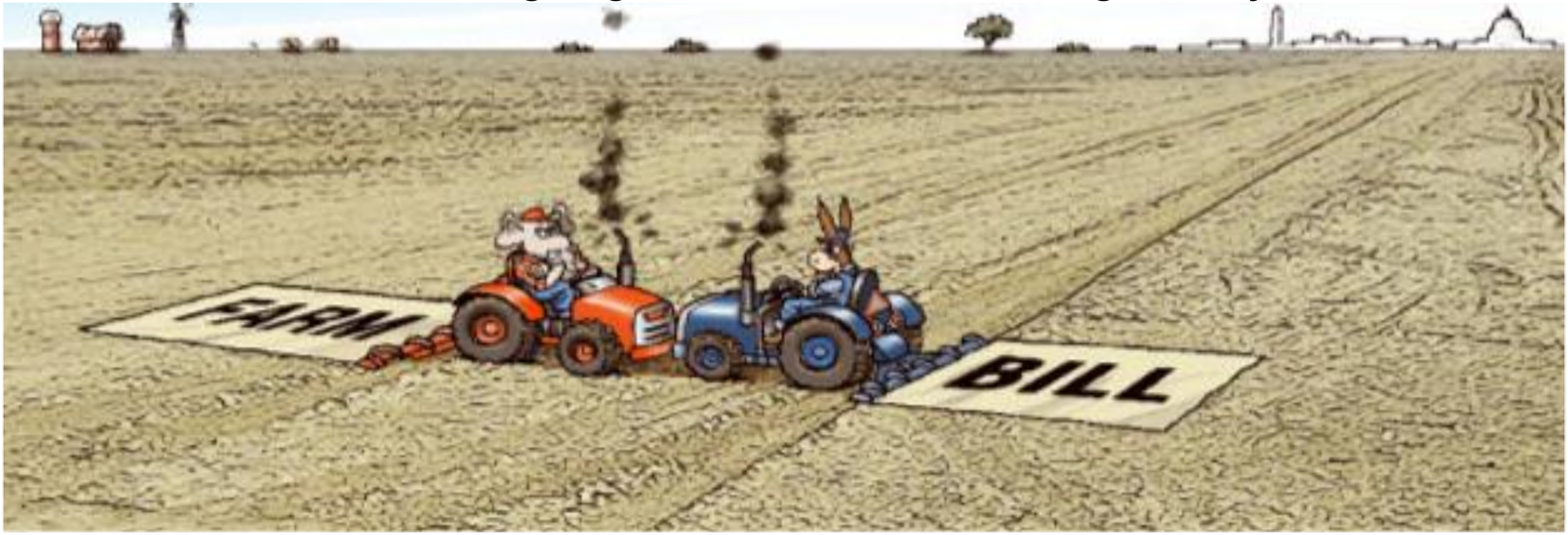
- ✓ Section 179 expensing, with $500K limit
- ✓ 50% bonus depreciation
- ✓ Biodiesel production credit
- ✓ Cellulosic ethanol production credit
- ✓ Wind energy: Production tax credit
- ✓ Further extensions likely for 2015, possibly 2016

Why Effective Safety Net Needed Ahead

- **Potential key market changes ahead:** In 2015, 2016…
- **Higher interest rates:** Federal Reserve strategy
- **Higher U.S. dollar:** Impact on exports
- **Increased crop yields:** If yields are big again this year…
- **Lower prices:** How low depends on carryover buildups
- **Barometers:** Farm equipment, land values, cash rents

FARM BILL IMPLEMENTATION UNDERWAY

Process of converting legislative intent into regulatory authorities



- **Elimination of direct payments,** movement to insurance programs.
- **No safety net payments until Oct. 2015**
- **Some delays** in program rollouts…**but Vilsack flip-flops on APH**.
- **Changes in payment caps**
- **Actively engaged:** USDA details awaited.
- **Dairy program** changes
- **WTO challenges** ahead?

Farm Bill Program Options

- **ARC-county favored by most Midwest producers.**
- **PLC favored by most rice, peanut growers, and some wheat producers.**
- **PLC favored by producers who like SCO option, unavailable for ARC choice.**
- **PLC bests ARC in 2016-2018 if MY avg prices fall below \$3.70 corn, \$8.40 soybeans, \$5.50 wheat.**

Farm Bill Program Options

- **Using Nov. WASDE price projections, potential 2014-crop payouts...**
  - **Corn:** ARC-CO payouts of $36-$79 per base ac. PLC $0-$65
  - **Soybeans:** ARC-CO $0-$24. PLC $0
  - **Wheat:** ARC-CO $0-$18. PLC $0
  - **Sorghum:** ARC-CO $0-$26. PLC $10-$39
  - **LG RICE**: ARC-CO $0. PLC $48-$108
  - **MG RICE**: ARC-CO $0. PLC $0

The Next Farm Bill

- **Economic environment.**
- **Players.**
- **Simplification.**
- **Analysis of current bill.**
- **WTO challenges**

Regulations

- **EPA actions**
  - Lawmaker focus continues
  - Power of the purse
- **WOTUS**
  - Interpretive rule fate
  - Final rule looms large
- **RFS**
  - EPA policy inept
  - Key will be signals on future… whenever 2014 comes out

Other Issues

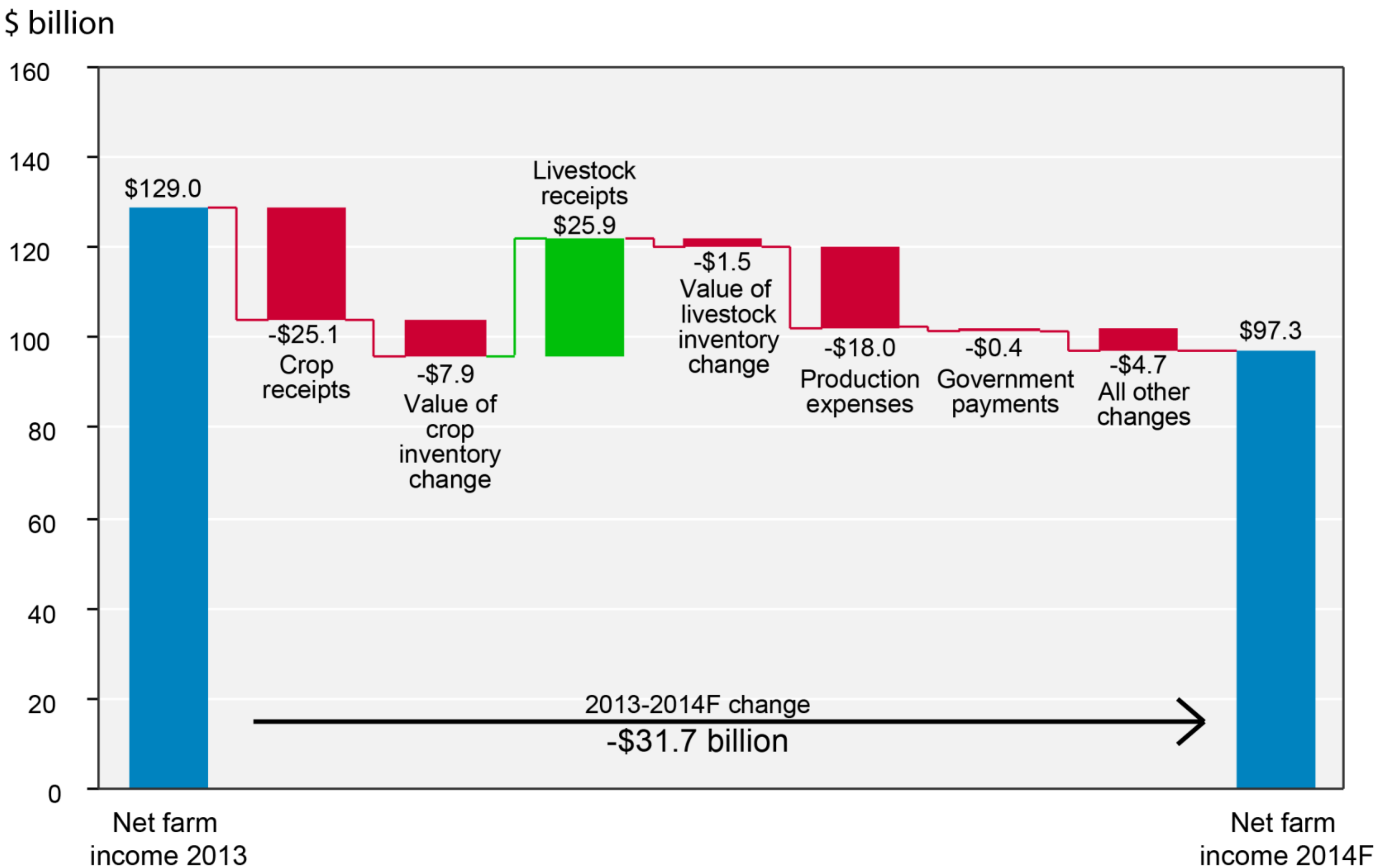
- **GMO labeling**
- **Beef checkoff**
- **Research funding**
- **SNAP – food stamps**
- **Child Nutrition Act** reauthorization in 2015
  - **FLOTUS** to play big role
- **Supreme Court:** Vacancies?

Potential Acreage Shifts Driven By Input Costs, Weather and Global Developments

	2011	2012	2013	2014	2015	Change 14 to 15
		---------------- million acres ----------------				
Corn	91.9	97.2	95.4	91.6	88 - 90	0 to -4
Barley	2.56	3.66	3.53	2.98	3.00	+0.0 ?
Soybeans	75.0	77.2	76.5	84.8	85 - 90	0 to +5
Canola	1.07	1.76	1.37	1.71	1.81	+0.1
Wheat	54.4	55.1	56.2	56.8	56.6	-0.2
Upland Cotton	14.7	12.3	10.4	11.4	9.6	-1.8
5 other crops*	13.3	15.3	16.4	16.8	16.7	-0.1
Hay harvested	57.6	58.7	58.3	57.6	58.2	+0.6
Total of above	310.5	321.2	318.1	323.7	323.4	-0.4
CRP	31.1	29.5	27.0	25.5	24.0	-1.5
Total acreage	341.68	350.7	345.1	349.2	348-350	-1 to +1

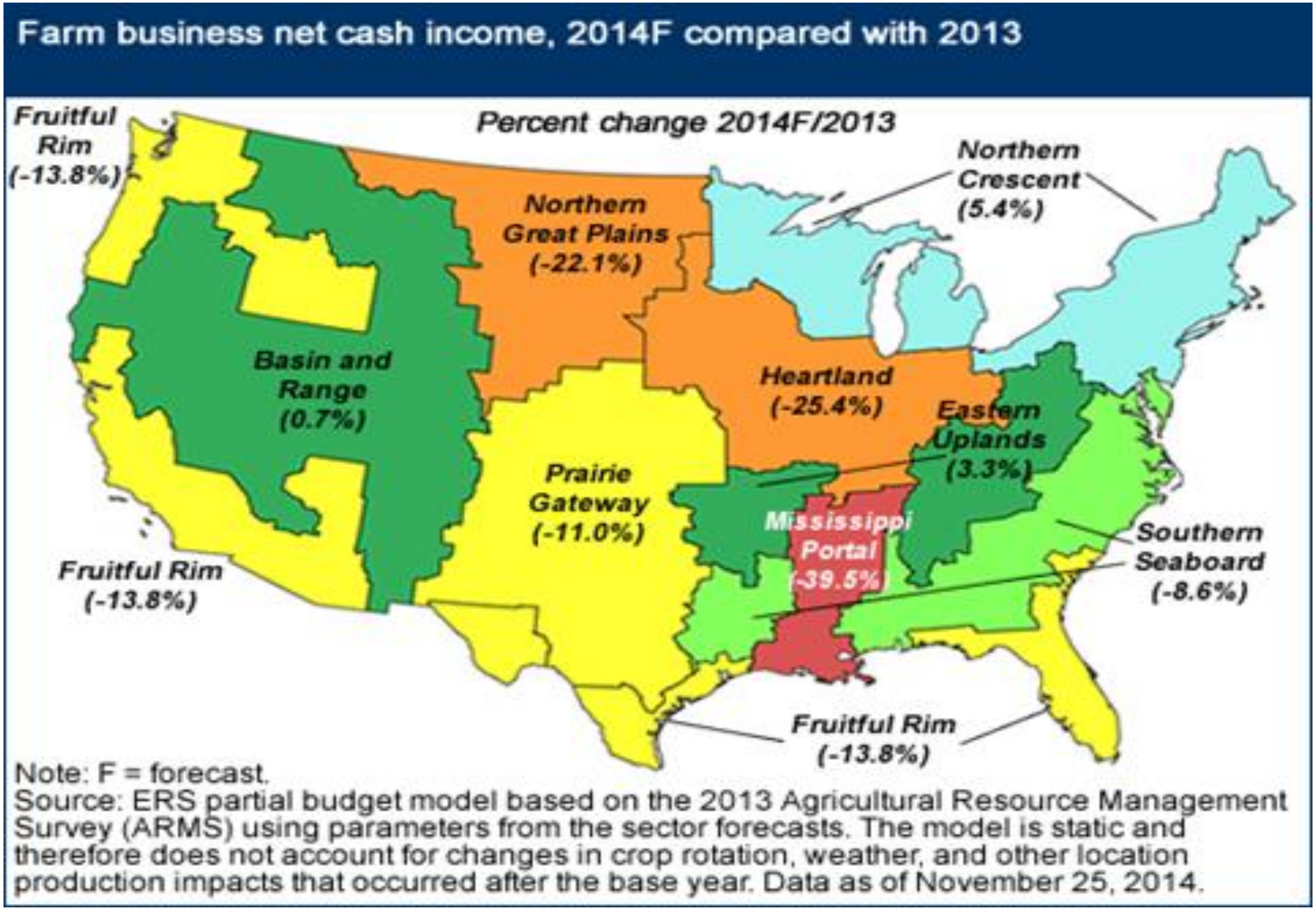
** Oats, sorghum, rice, sunflowers, and peanuts*

Net farm income, by component of change, 2013-2014F

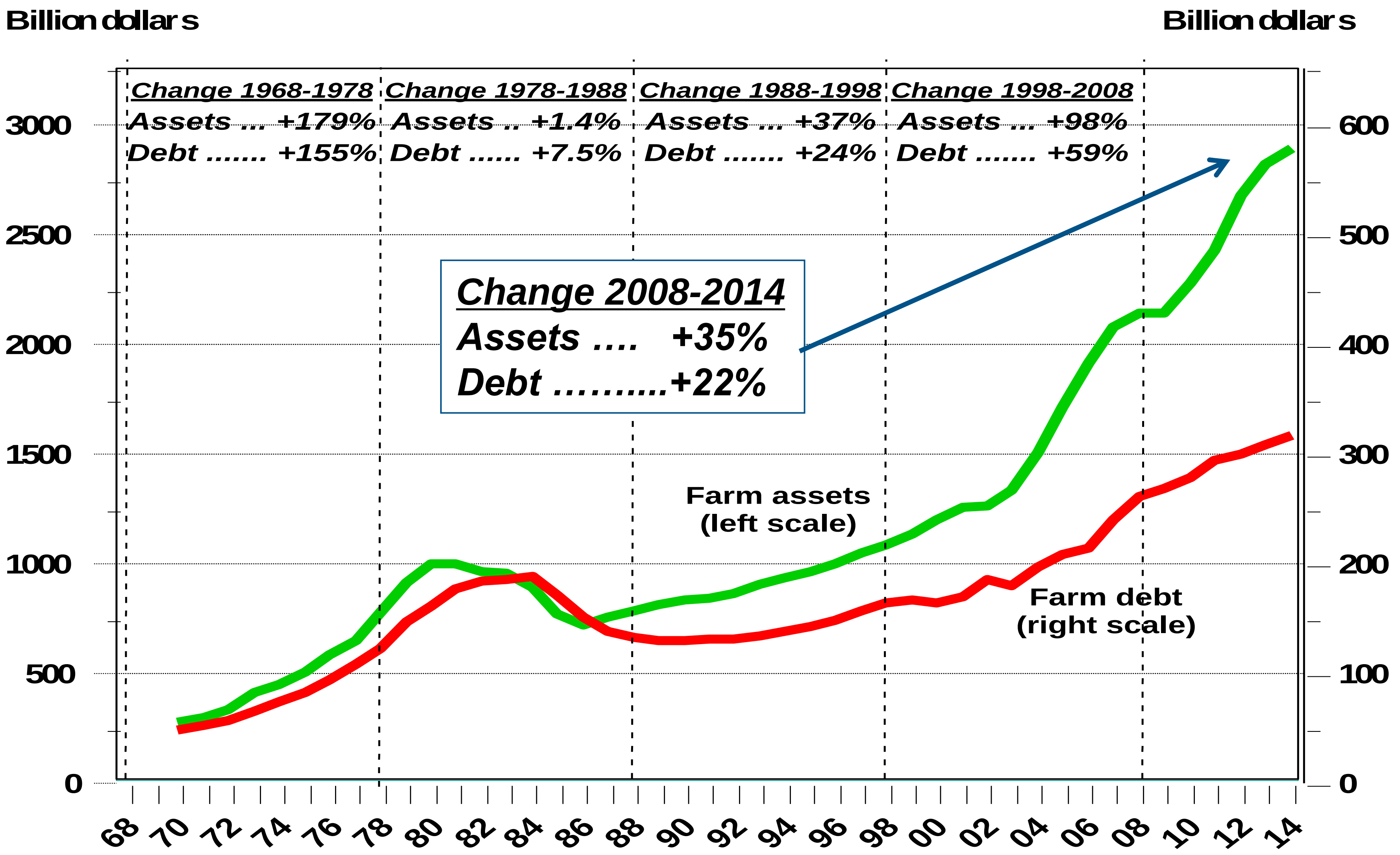


F = Forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of December 12, 2014.

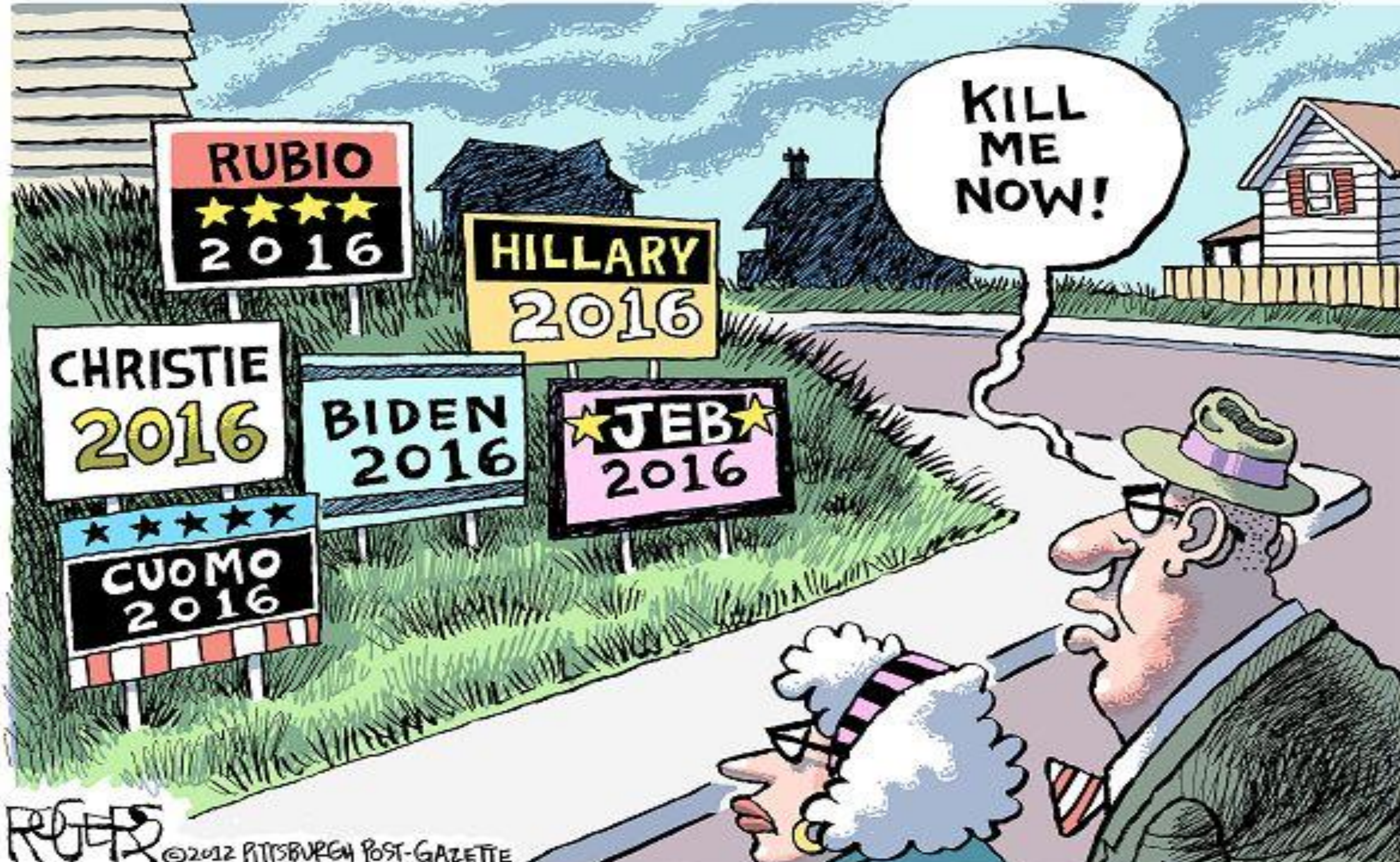
2014 Farm Income Change by Region



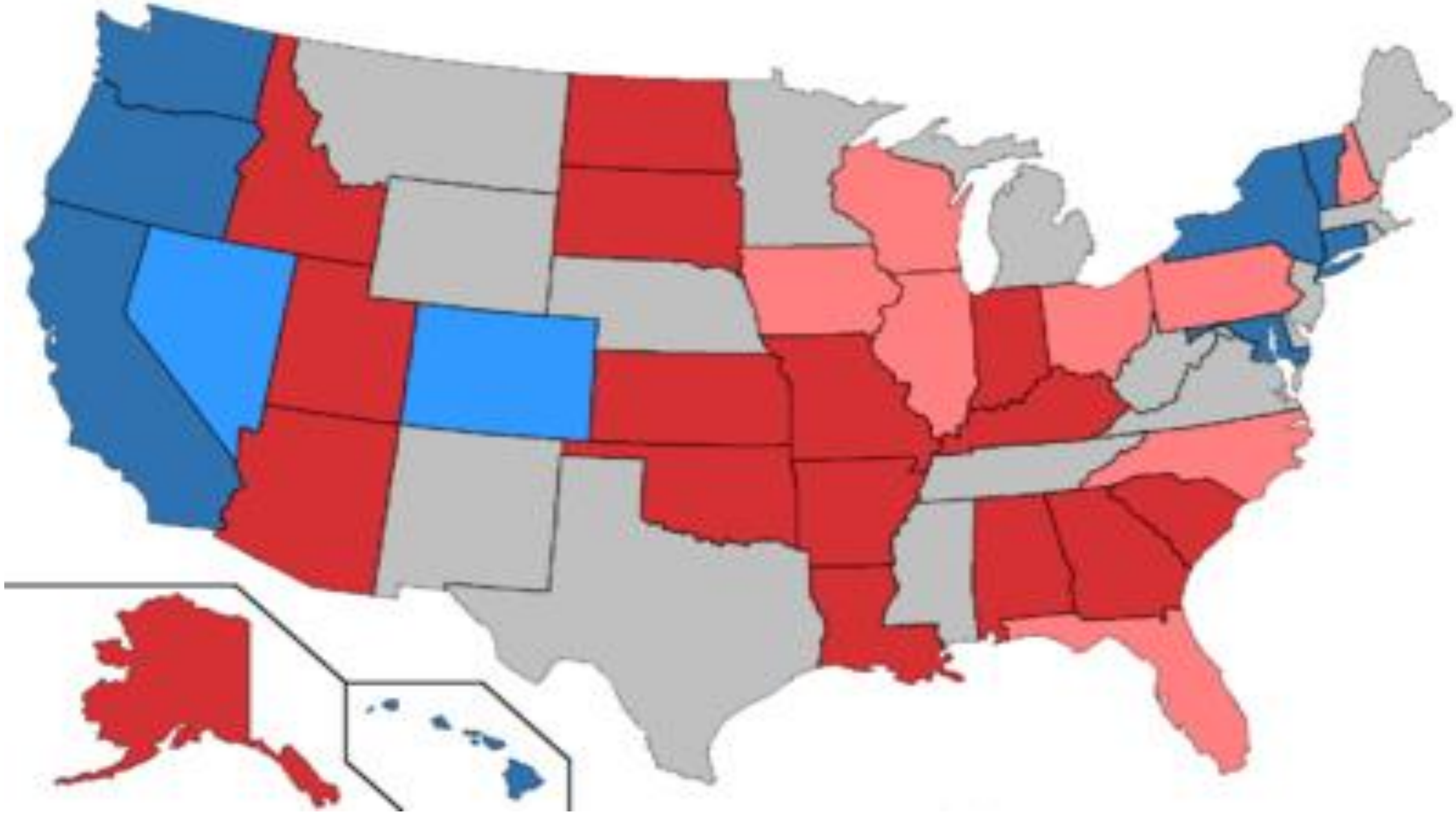
Balance Sheet of Agriculture is Better Prepared for Volatility and Transition



Elections: Attention Shifting to 2016



In 2016, At Least 34 Senate Seats Will Be Up for Election; 24 Republican and 10 Democratic



- Democrat-favored seat (8)
- Republican-favored seat (16)
- Competitive Democrat-held seat (2)
- Competitive Republican-held seat (8)

QUESTIONS

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