



Markets on the Move

Macro & Agriculture Update

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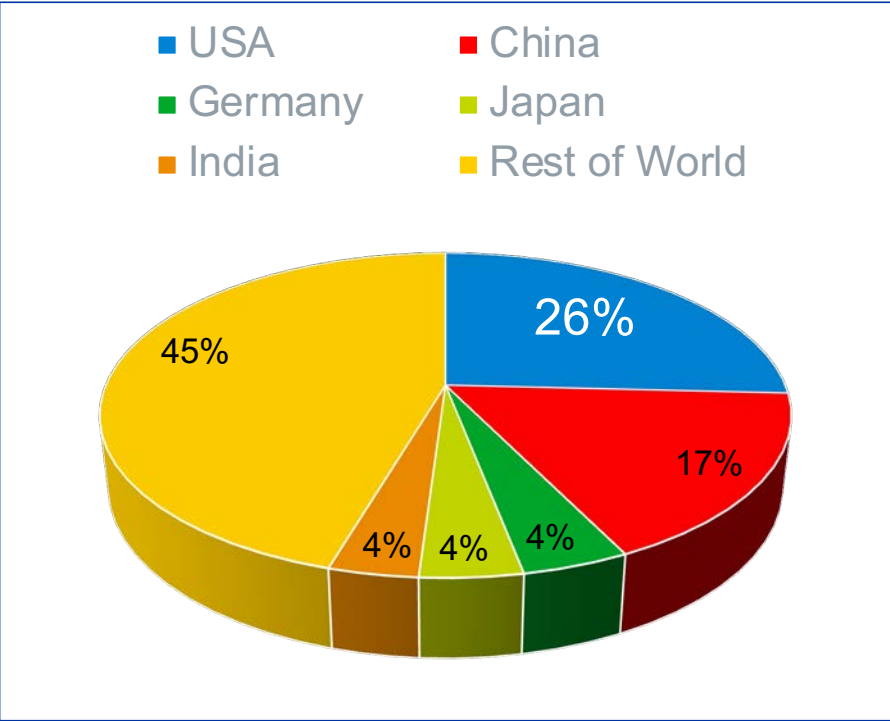
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Introduction

We are living in an age of disruptive change, driven by globalization, technological advancement, weather volatility, aging populations, labor mismatches, populism, and geopolitical risk.

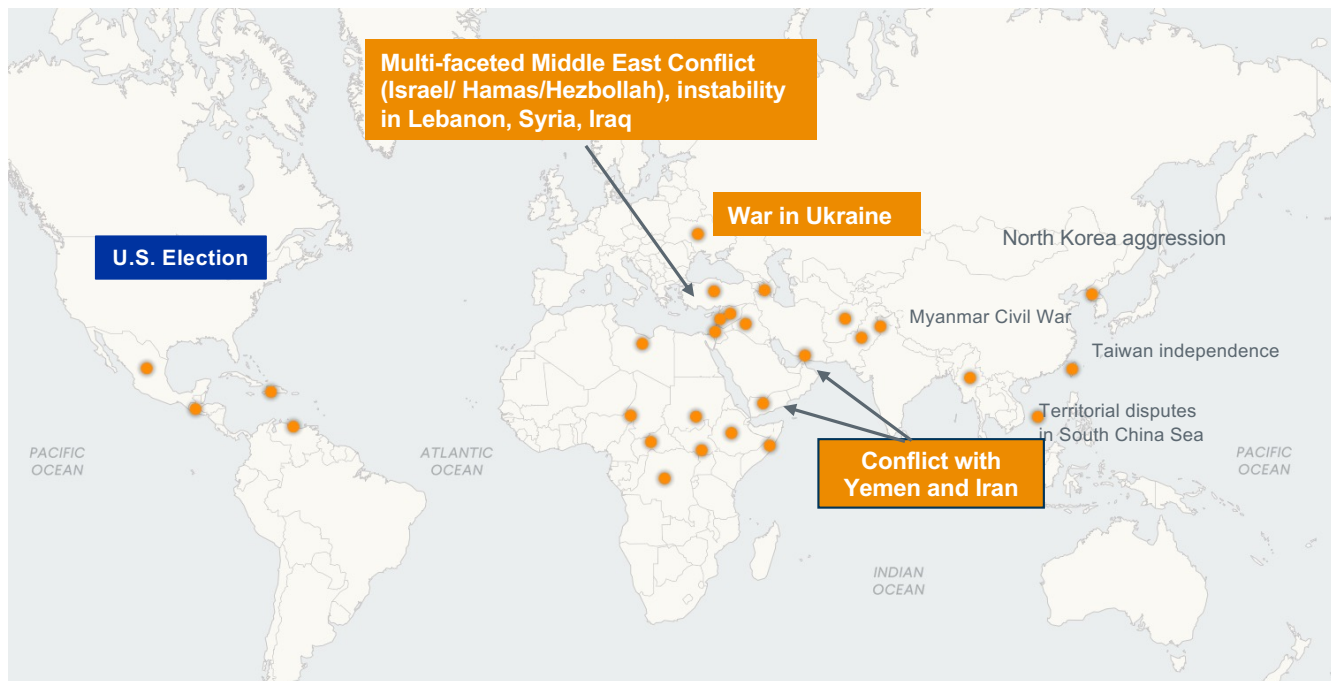
The U.S. continues to be the largest global economy, however its influence on global matters is changing

2023 Nominal GDP (\$104 USD trillion)



“The United States is the most powerful country in the world, but power and influence are two very different things.”
– Richard Haas, Council on Foreign Relations

Global conflict and new alliances among China, Russia, Iran and North Korea, is testing U.S. power and authority



Source: The Council on Foreign Relations *Global Conflict Tracker*

Weaker China exports

Aging populations

Low grain prices and farmer margins

Six themes are impacting agriculture

Brazil's rise as a corn/soybean exporter

Weather / supply chain disruptions

Producer and cooperative consolidation



In the midst of
chaos, there is also
opportunity.

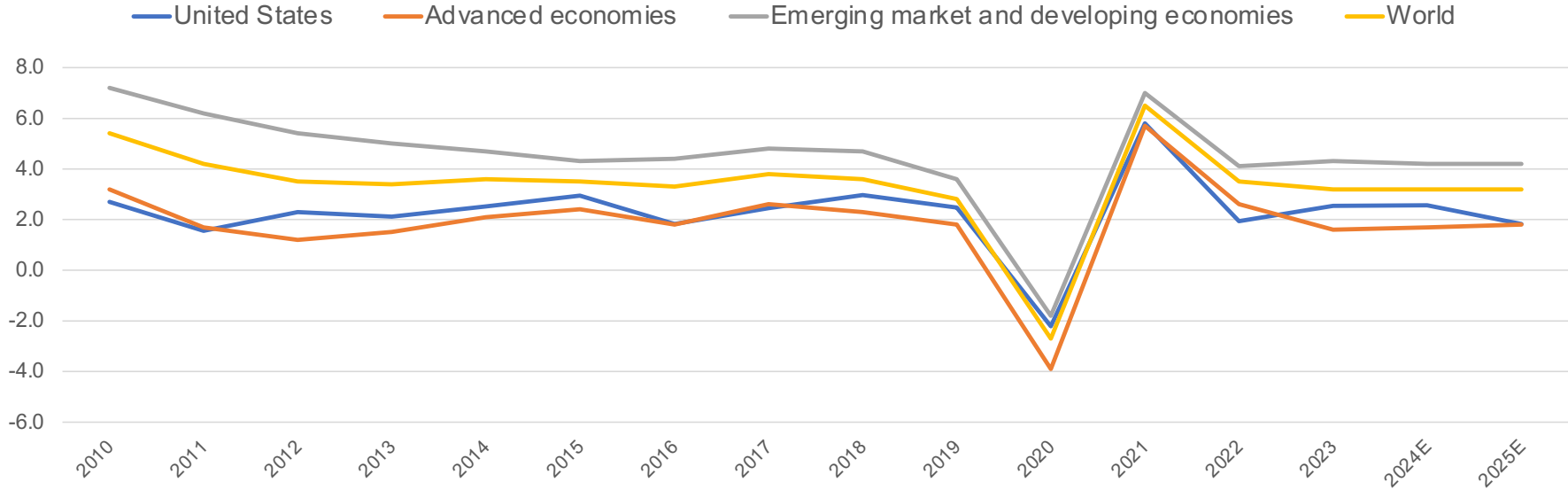
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Source: Pinterest

Macro Perspectives

Global economic growth remains stable despite the macro risk factors

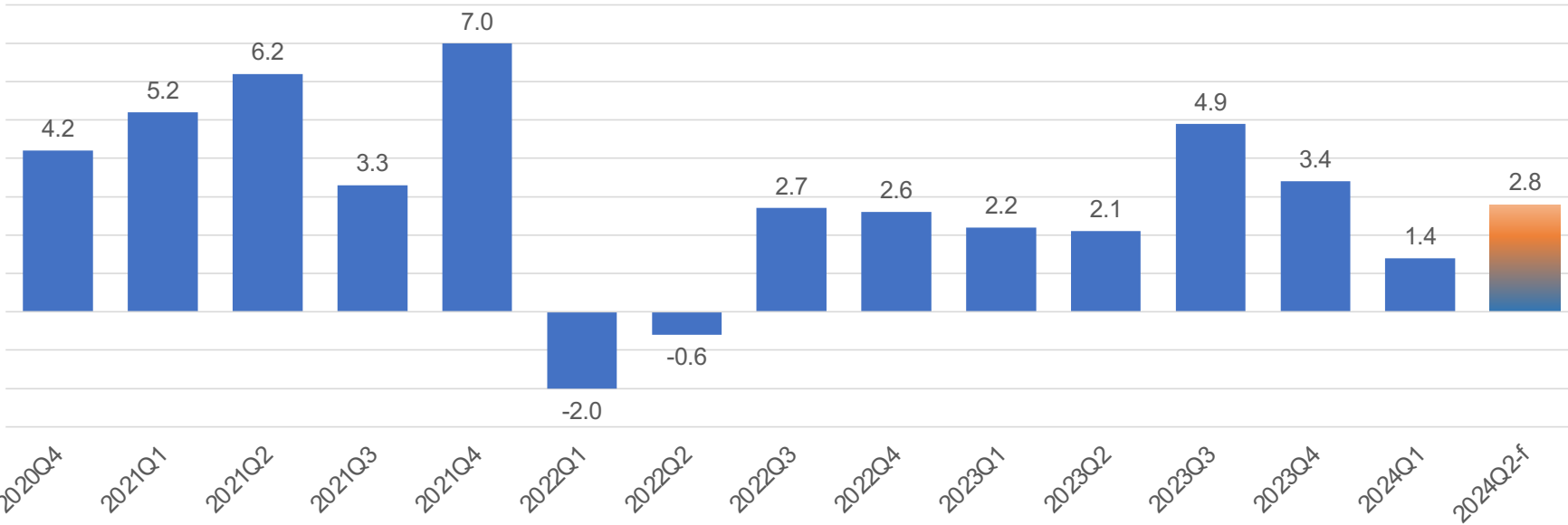
Global GDP Growth Comparison



Source: International Monetary Fund (IMF)

U.S. economic growth has been especially resilient

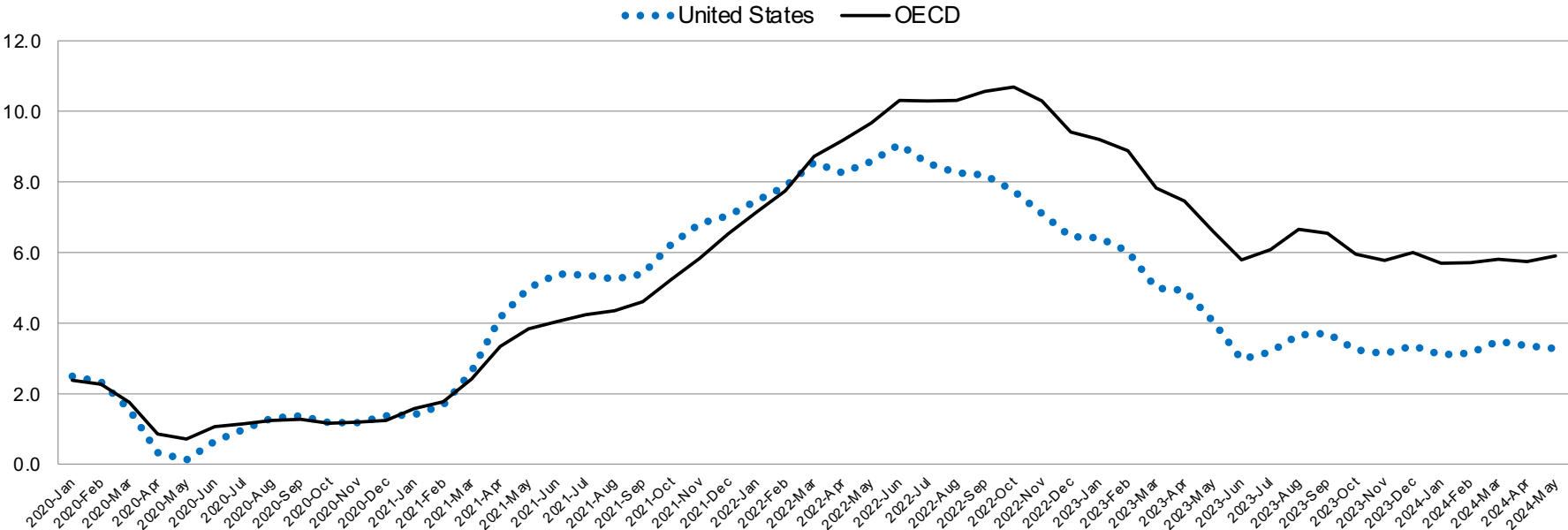
Growth in U.S. GDP (% change)



Source: Federal Reserve

Actions by the Federal Reserve have tamed U.S. inflation

Global Inflation Comparison Since 2020



Source: International Monetary Fund (IMF)

The current U.S. economic picture supports a September cut*

Consumer Price Index: All Items	Unemployment Rate
+2.9% Yr./Yr. Jul 2024	4.3 % on Jul 2024
Real Gross Domestic Product	Total Nonfarm Payrolls
+2.8% estimated for Q2 2024	+114,000 Jul 2024
Housing Starts	U.S. Building Permits
-6.8% M/M. July 2024 to 4 year low	-4.0% M/M July 2024 to 4 year low
Industrial Production Index	Initial Unemployment Claims
-0.6 % Chg. on Jul 2024	227,000 on 2024-08-10

Source: Federal Reserve, BarChart.com, Wall Street Journal

* As of 8/19/24, futures have priced in a 71.5% chance of a 25- basis point rate cut at the September FOMC meeting.

But rising debt levels could present future fiscal problems

Debt Facts:

Government debt reached **\$35 trillion** in July 2024

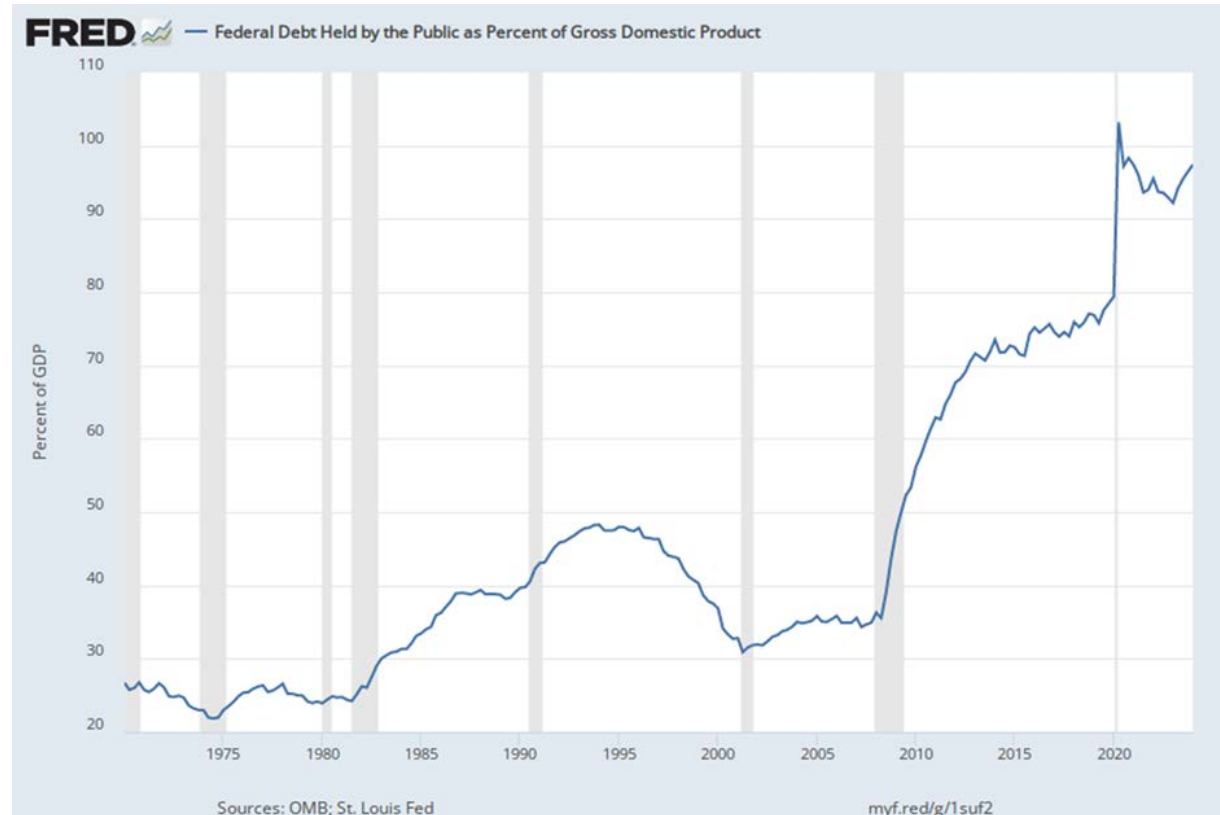
Annual interest on the national debt = \$1 trillion

U.S. federal debt-to-GDP is nearing 100%

The national debt / capita approximates **\$92,000**

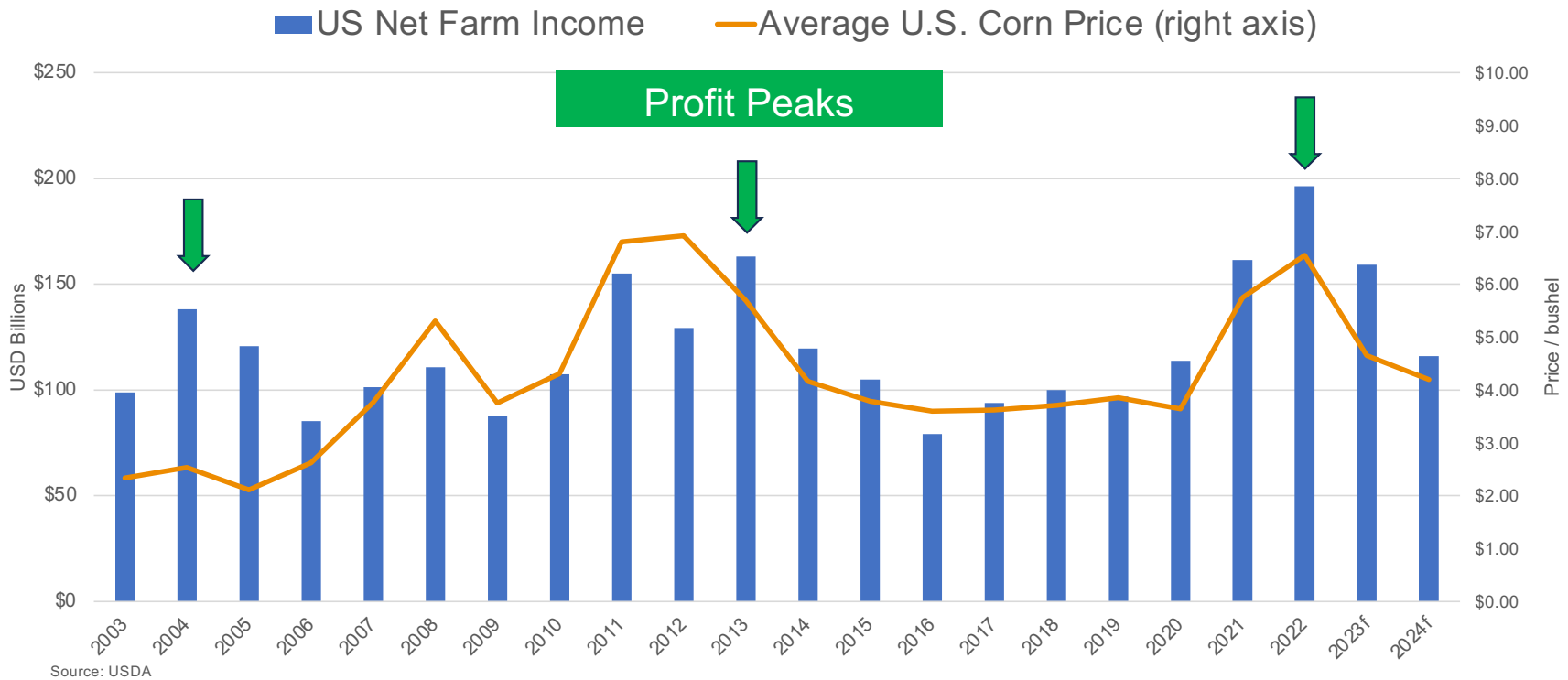
Compare to average per capita income of **\$71,000**

Source: Federal Reserve, Congressional Budget Office

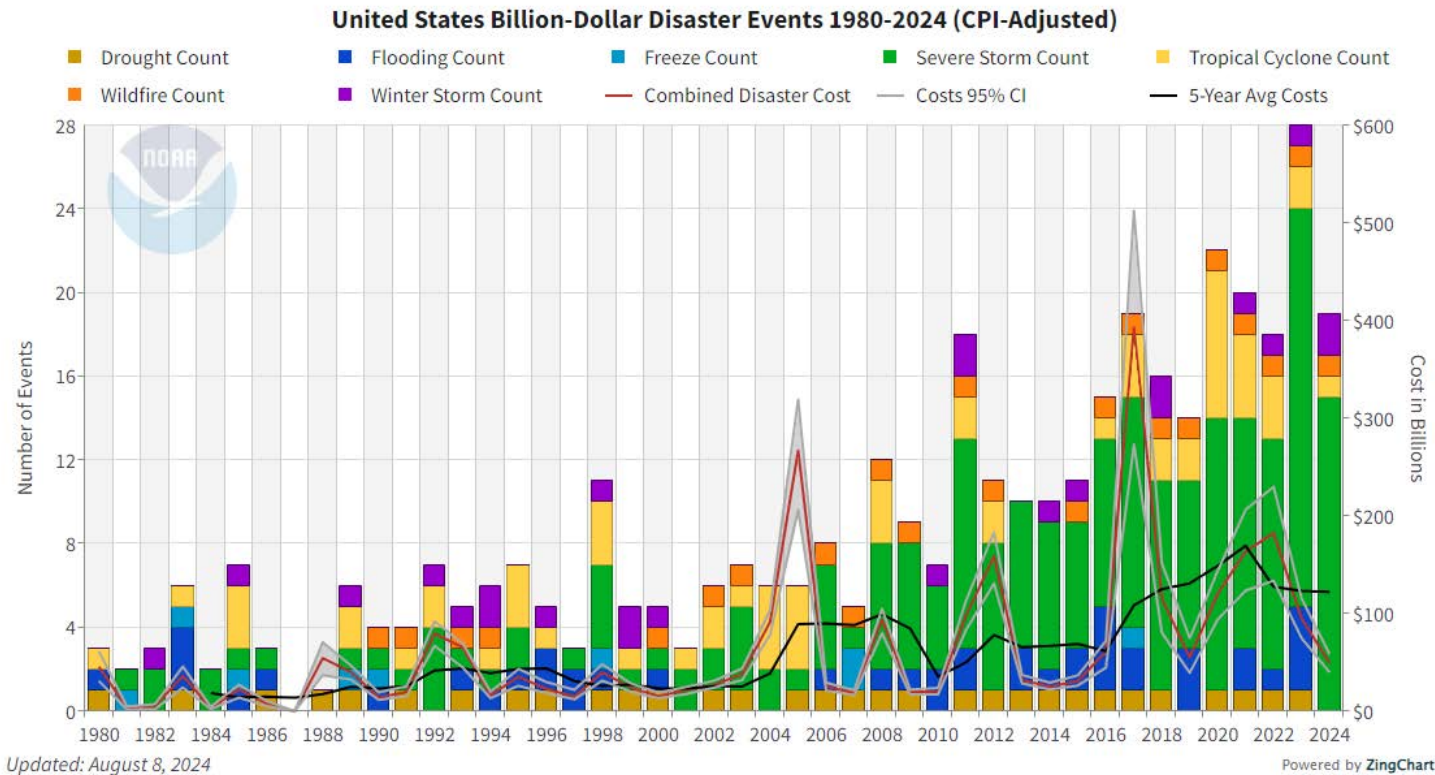


General Agriculture Observations

In contrast to a growing U.S. economy, the farm economy has been in a downturn for the past two years



Beyond the cycle, agriculture has experienced volatility due to more frequent / severe “cat” losses

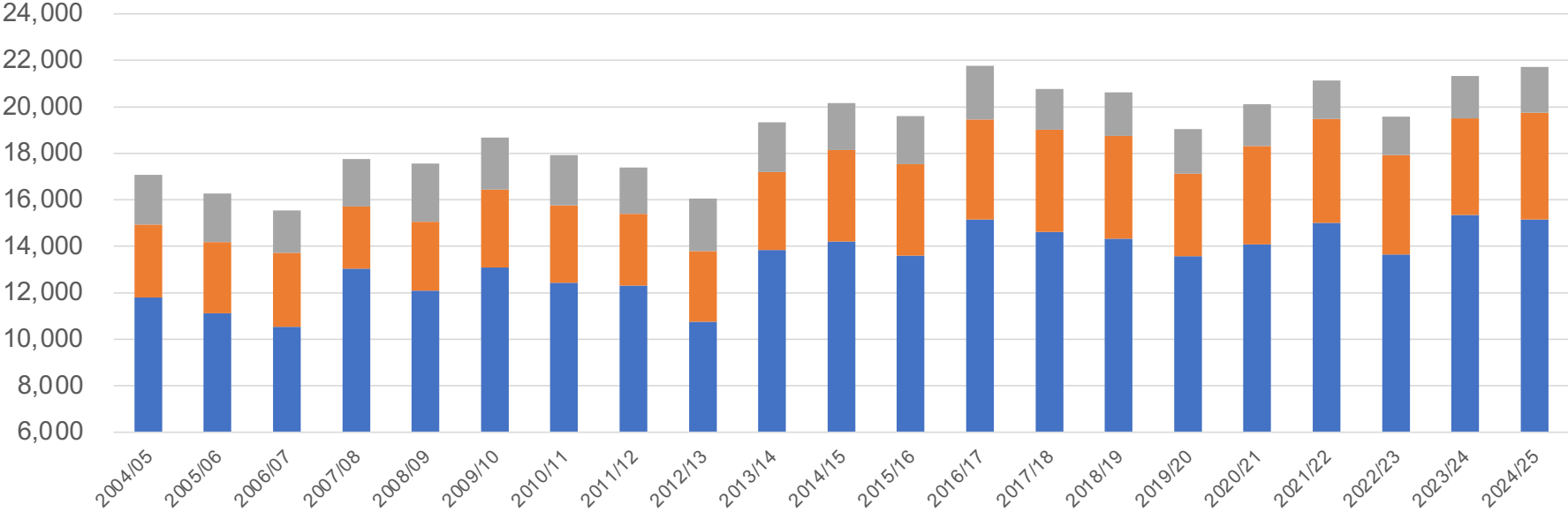


Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). <https://www.ncei.noaa.gov/access/billions/>.

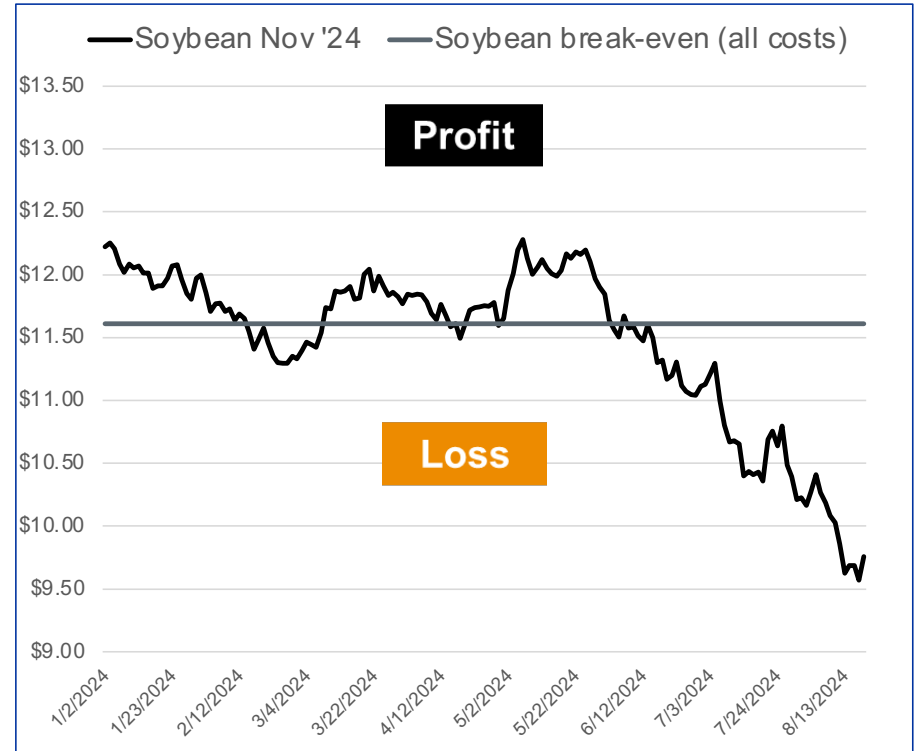
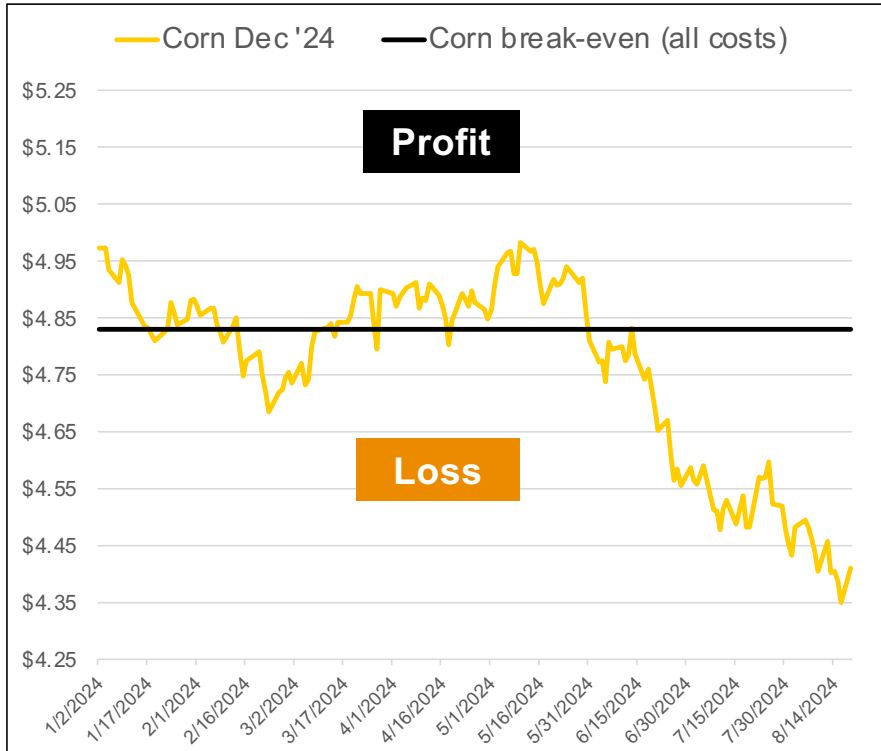
Expectations for a strong crop are weighing on grain prices

U.S. Crop Production by Crop Marketing Year

(in million bushels)



Low grain prices have pushed farmer margins into the red

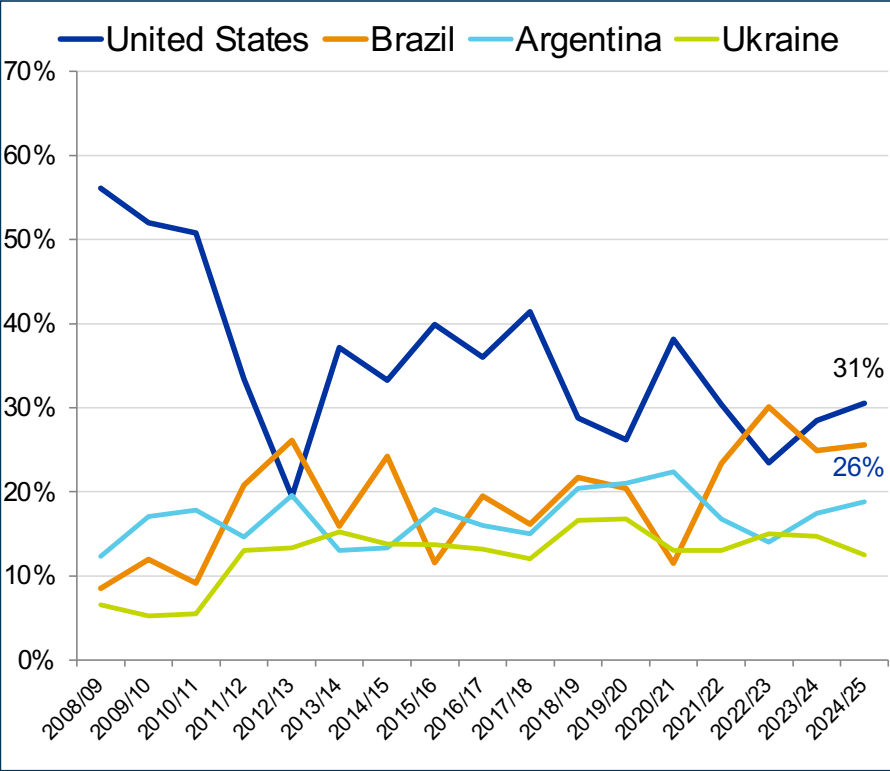


Schnitkey, G., B. Zwilling, N. Paulson, C. Zulauf, B. Rhea and J. Baltz. "Increasing Pessimism About 2024 and 2025 Corn and Soybean Returns." *farmdoc daily* (14):141, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 30, 2024.

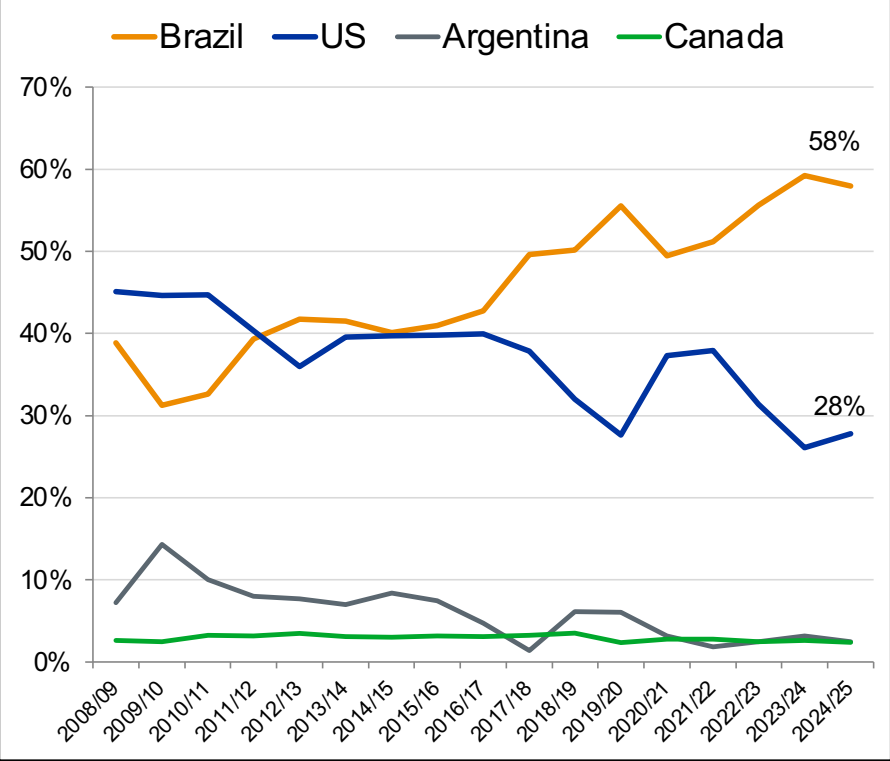
Trade Observations & Outlook

U.S. and Brazil continue to battle for export market share

World **CORN** Export Share



World **SOYBEAN** Export Share



While the U.S. is losing China export share to Brazil, U.S. trade with Mexico is quite robust

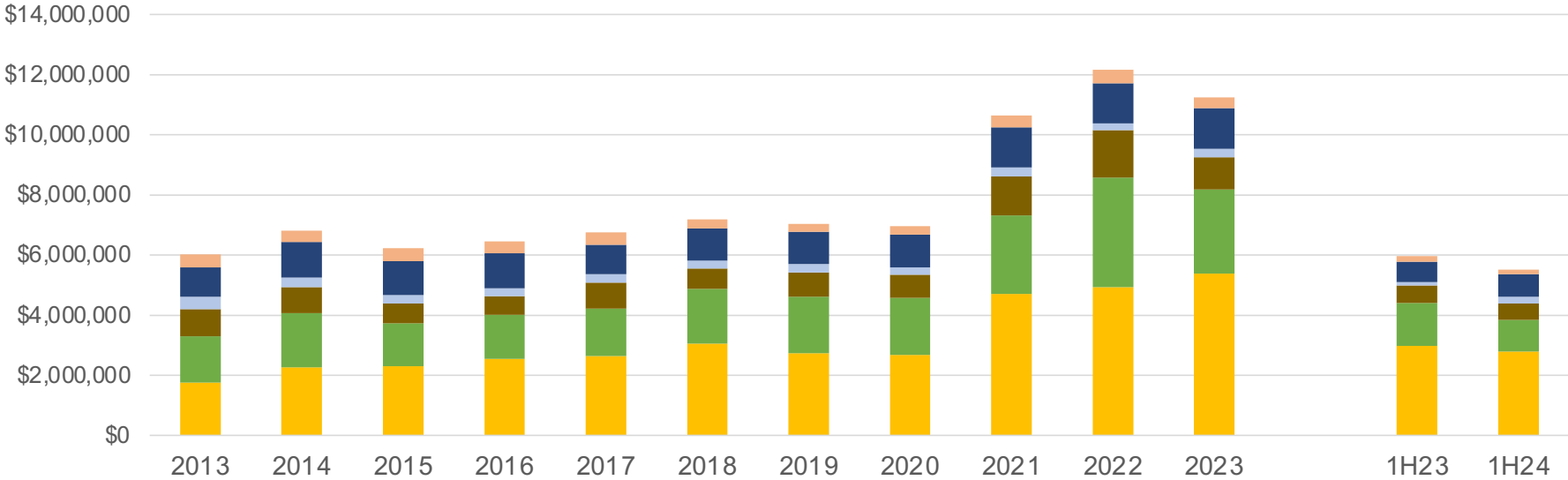


Sources: Union Pacific Railroad and Momentum Transportation USA, Inc

G&O exports to Mexico have grown sharply since COVID (with 2021 and 2022 results benefitting from strong commodity prices)

US Exports of Grains & Oilseeds Commodities to Mexico

■ Corn
 ■ Soybeans
 ■ Wheat
 ■ Rice
 ■ Meal & Milled Products
 ■ Veg/Soy Oil




Source: USDA

And volume growth for grain and pork exports is +33% for the current marketing year

U.S. Accumulated Exports to Mexico			
As of 8/15/2024, current crop marketing year			
	<i>Figures in 1,000 metric tons</i>		
	<u>Prior Year</u>	<u>This Week</u>	<u>%Chng.</u>
Corn	14,328	20,739	45%
Soybeans	4,460	4,489	1%
Soybean Cake and Meal	1,279	1,599	25%
Wheat (All Classes)	597	718	20%
Pork	<u>420</u>	<u>422</u>	<u>1%</u>
Subtotals	21,083	27,966	33%

Source: USDA

Recent events could result in a temporary pause in trade

 The New York Times

What Canada's Rail Shutdown Could Mean for Trade



38 minutes ago

 Reuters

Canada rail shutdown: PM says action coming soon




2 hours ago

 CNN

Canadian freight railroads shut down, dealing a potential blow to North...



3 hours ago

 The Washington Post

Huge Canadian railway work stoppage threatens U.S. economy



4 minutes ago

Conclusions & Takeaways

Key Takeaways:

- 1** U.S. agriculture faces several risks including low grain prices, negative farmer margins, competition with Brazil, geopolitical conflict, transport challenges.
- 2** Volatility is the new normal: industry participants must learn to embrace it and extract the opportunities it creates (be it M&A or opportunistic expansion)
- 3** Ag exports to Mexico remain strong in contrast to China; however, over the long-term, the U.S. will need to capture new incremental sources of demand

What We Are Watching

Extreme Weather. Hurricanes and flooding have disrupted transportation infrastructure (moving grain from interior U.S. to the ports) and fertilizer production in recent years.

Global Conflict. Military / terrorist aggression has driven up transportation costs and threatens to disrupt supply chains.

Brazil vs. U.S. dynamics. Brazil has become a powerhouse in both soybean and corn production and depending on time of year can be more cost competitive vs. U.S. grain exports.

China. USDA has recently reported an uptick in grain sales to China. Will the momentum continue even if the nation's economy deflates?

Election uncertainty. Could there be changes to immigration and trade policies (including new tariffs) post election?

Transportation bottlenecks. Canadian rail strikes and lower water levels on the Mississippi River threaten to disrupt grain transport post harvest.

Questions

