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Positioning Ag for Future Profitability

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**A New Phase of
the Ag Cycle –**

Volatility

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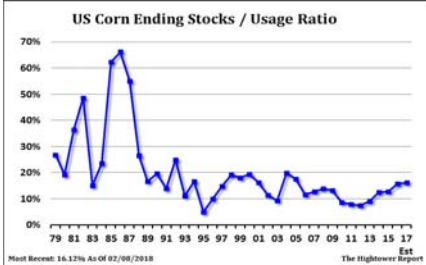
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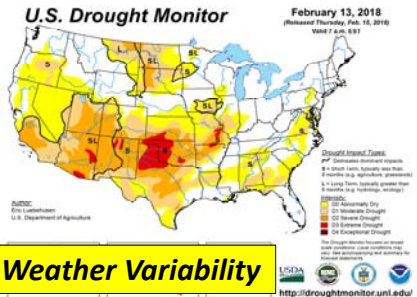


Ag Market Volatility

Relatively Lean Supplies





US Corn Ending Stocks / Usage Ratio
Most Recent: 16.12% As Of 02/08/2018
The Highower Report






Weather Variability

POLICY

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Trade Policy Creates Uncertainty



- First NAFTA now China
- Agriculture's message is a challenge: Is food scare or not?
- Example: China tariffs on soybeans


China imports 87% of soybeans they consume. 1/3 comes from US
25% tariff makes US soybeans not competitive with South America


Outcomes:
US soybean production drops 15% through fewer acres
Soybean prices drop 5%

Source: Tyner and Taheripour, Purdue University

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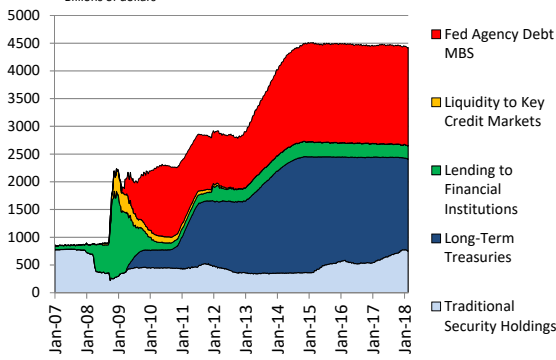




Monetary Policy 2018: Follow the Money

Federal Reserve Balance Sheet: Assets



Billions of dollars





Source: Federal Reserve Bank of Cleveland

- ❖ The Federal Reserve added \$3 trillion+ in monetary base
- ❖ Globally, US, EU and Japan central banks added \$11 trillion in assets.
- ❖ EU and Japan still added \$5+ trillion since 2015.
- ❖ Where did the money go and where is it going next?

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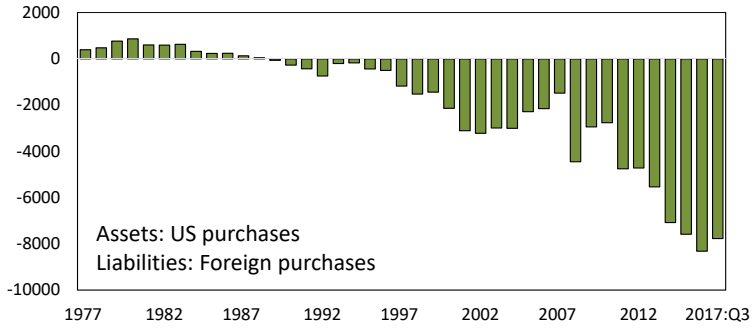




Are foreign funds leaving the U.S.?

U.S. Net International Investment Position
(Asset Minus Liabilities)



Billions of 2016 Dollars




Assets: US purchases
Liabilities: Foreign purchases

Source: U.S. Bureau of Economic Analysis

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More Optimism in Global Economies

World Economic Output
Annual Percent Change

Area	2016	2017	2018 Oct. 2017F	2018 Jan. 2018 F
World	3.2	3.7	3.7	3.9
Advanced	1.7	2.3	2.0	2.3
US	1.5	2.3	2.3	↑ 2.7
Euro Area	1.8	2.4	1.9	↑ 2.2
EMDE	4.3	4.7	4.9	4.9
China	6.7	6.8	6.5	6.6
India	7.1	6.7	7.4	↑ 7.4
Russia	-0.2	1.8	1.6	1.7
Latin America	-0.9	1.3	1.9	↑ 1.9


Source: International Monetary Fund, Jan. 2018

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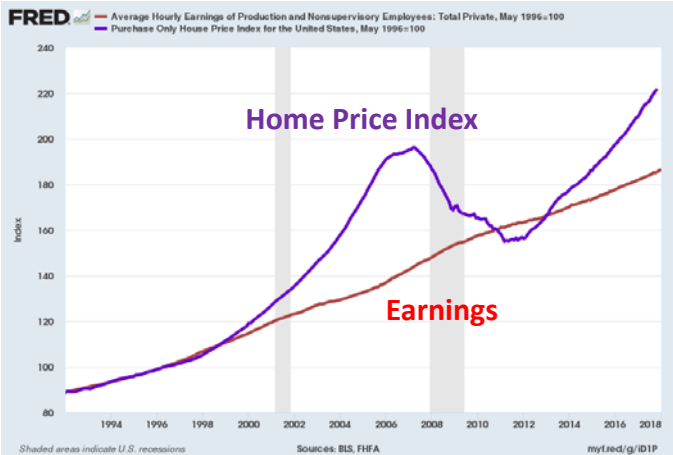


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Where is inflation emerging?

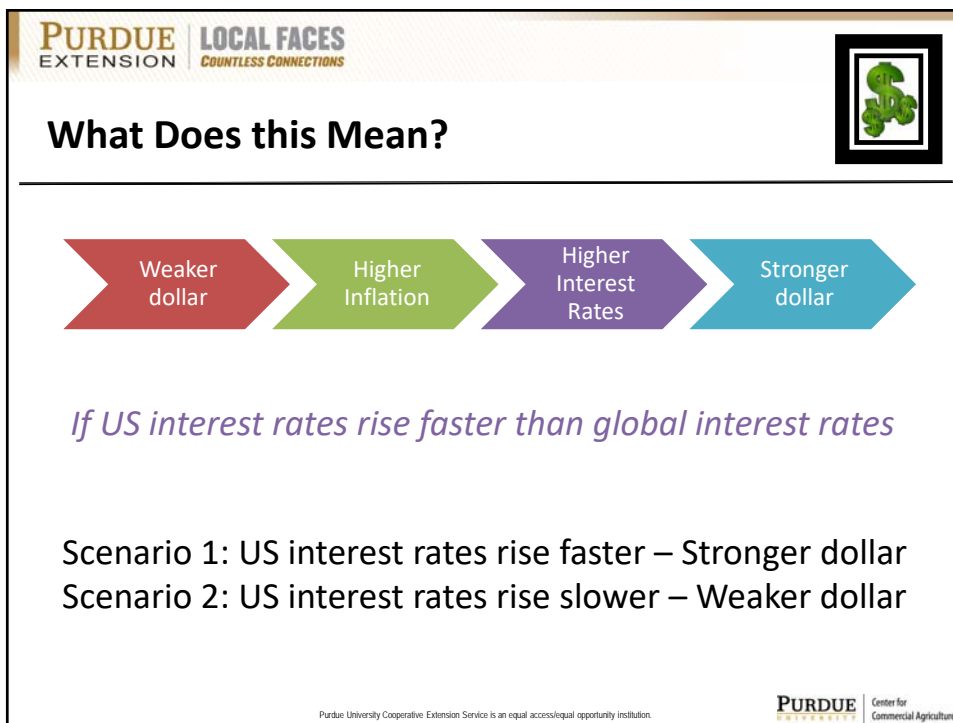
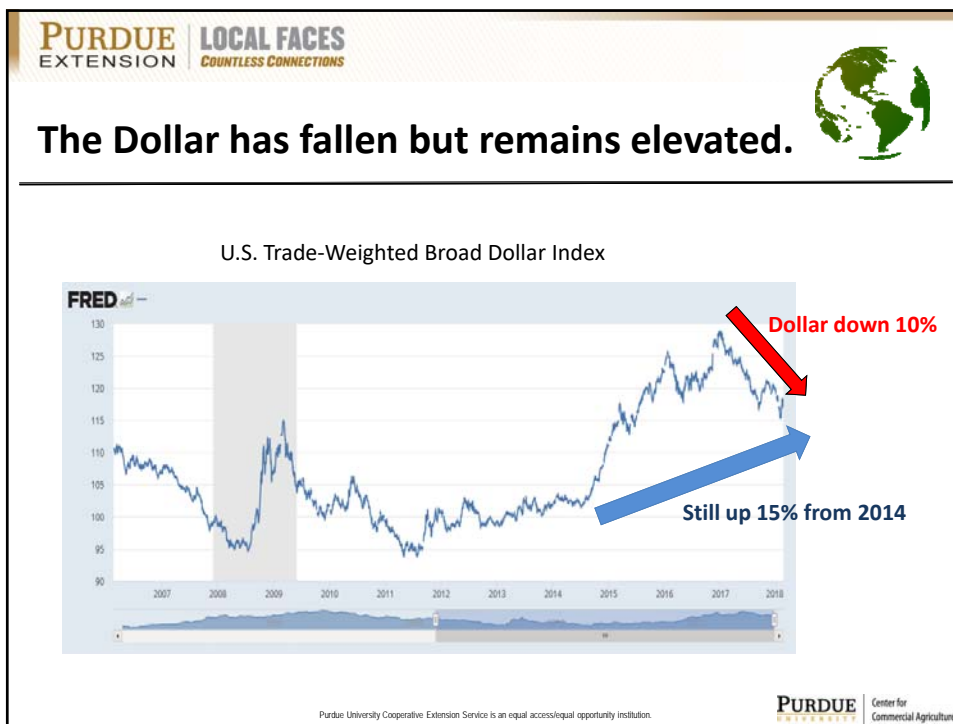


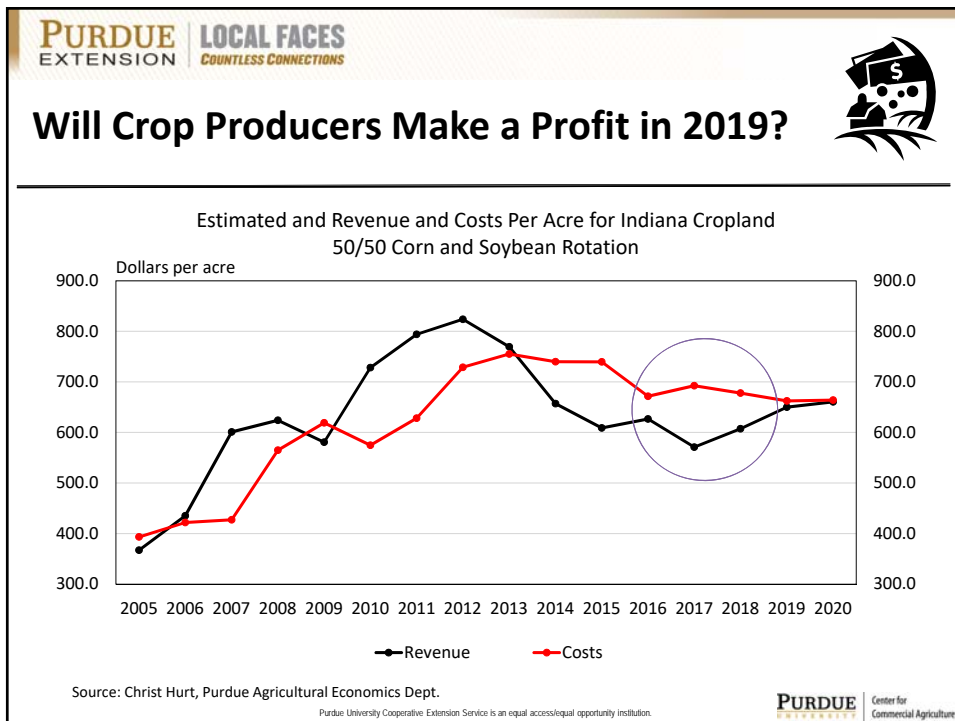
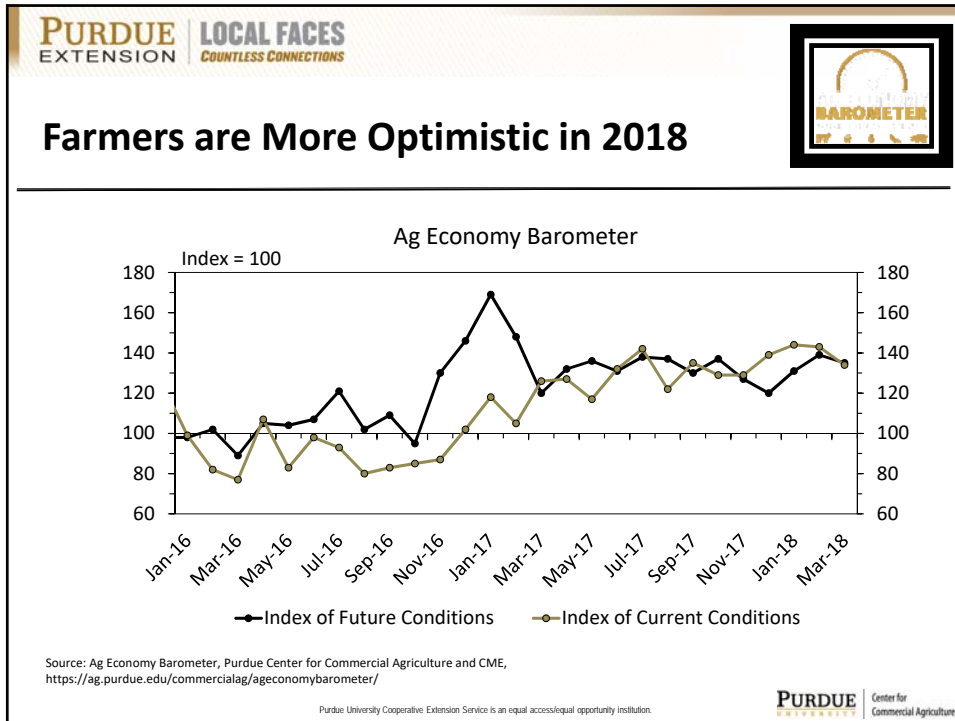
Sources: BLS, FHFA

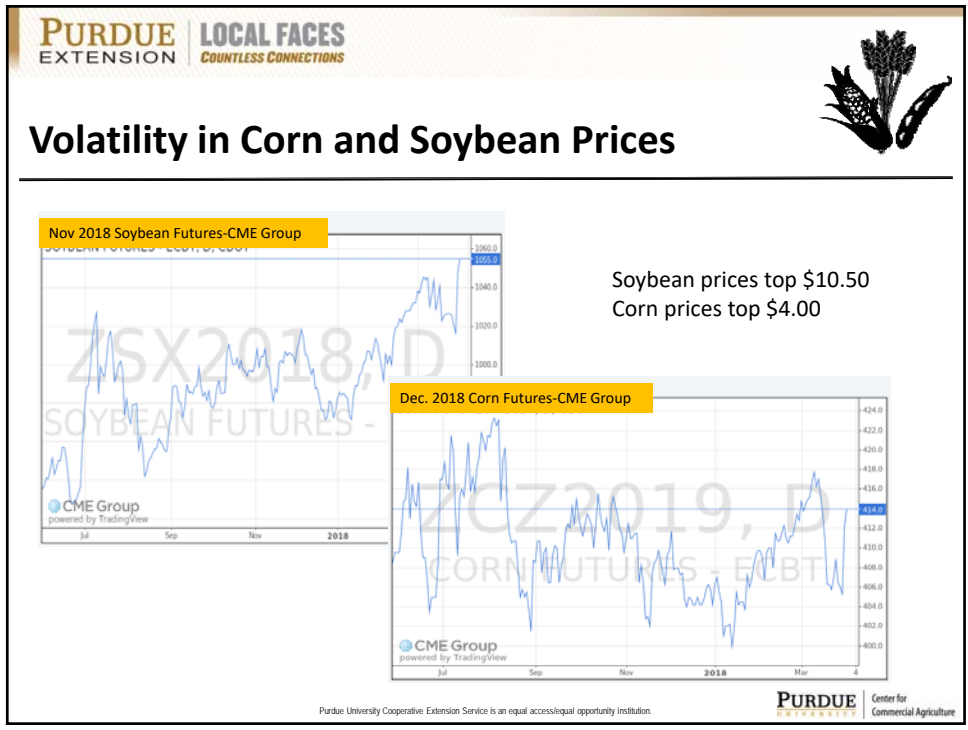
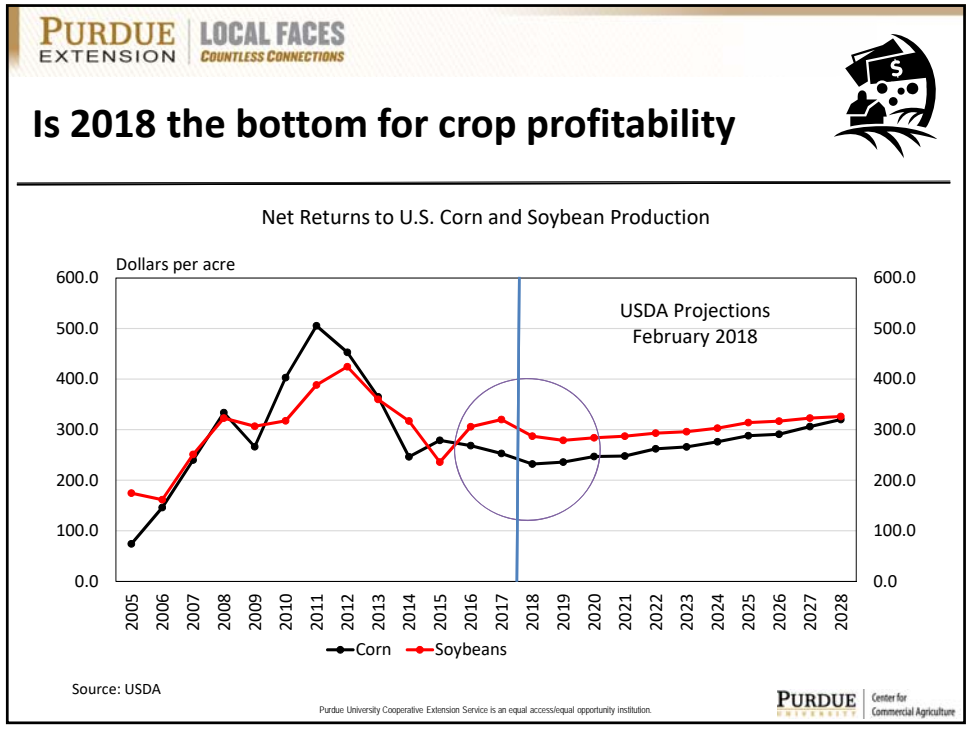
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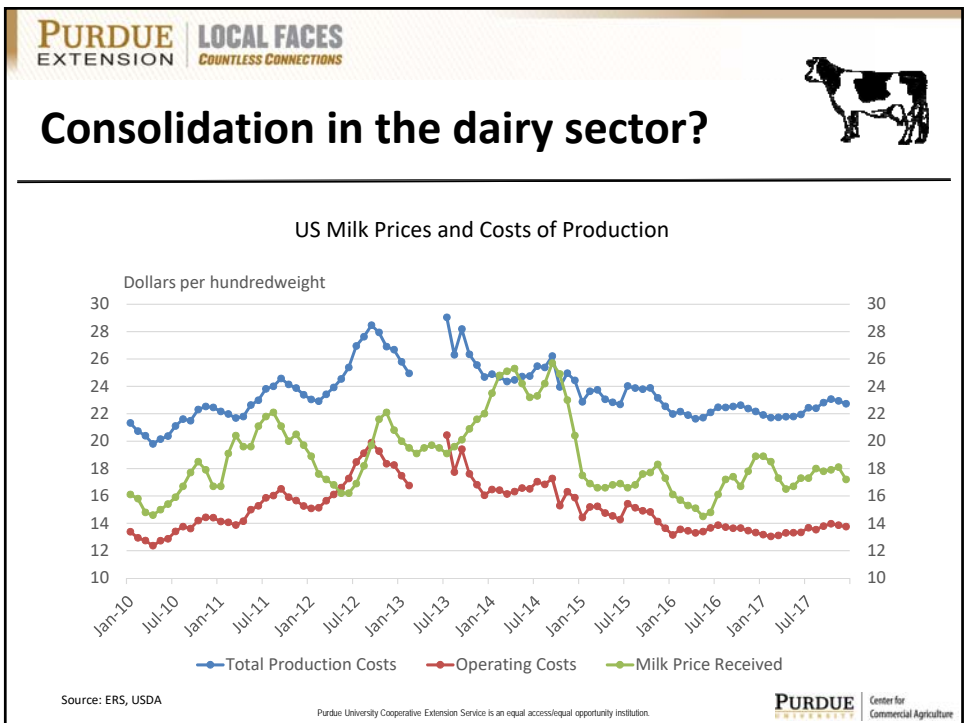
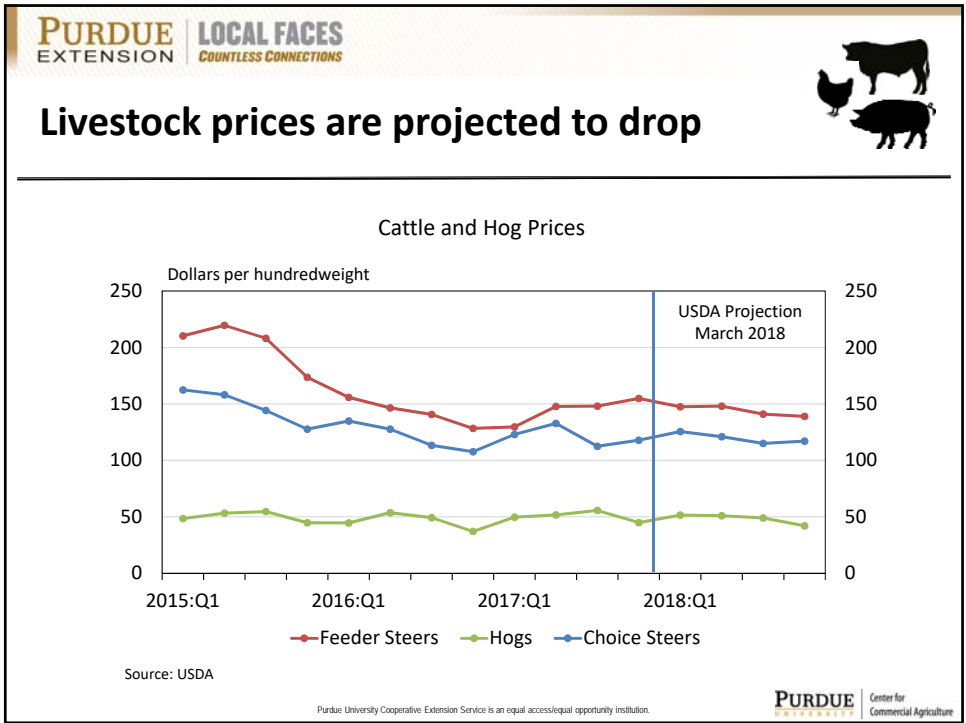


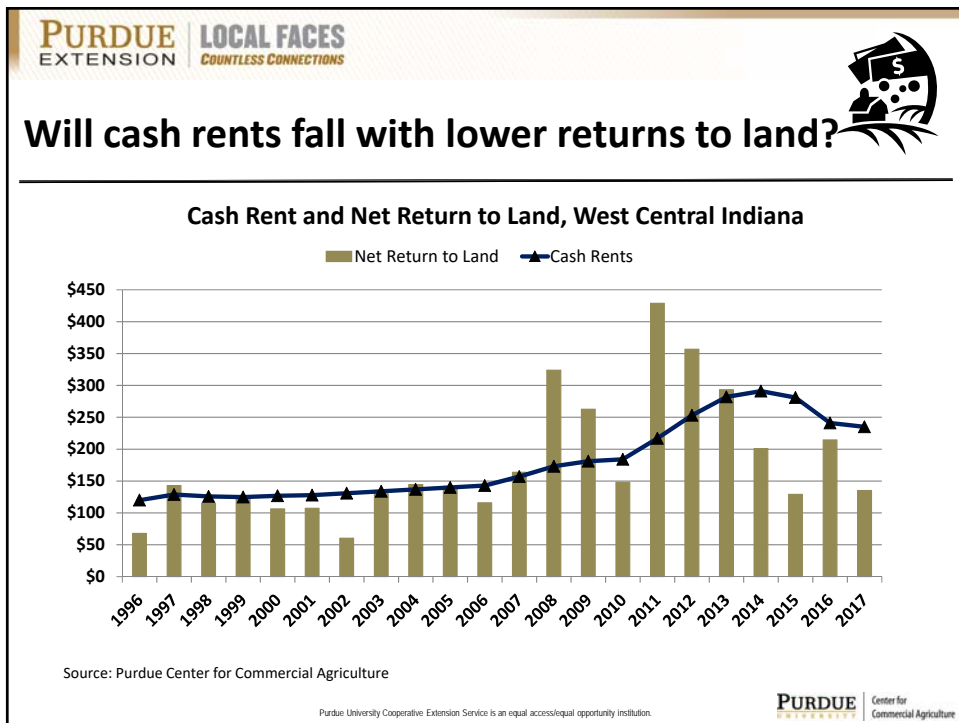
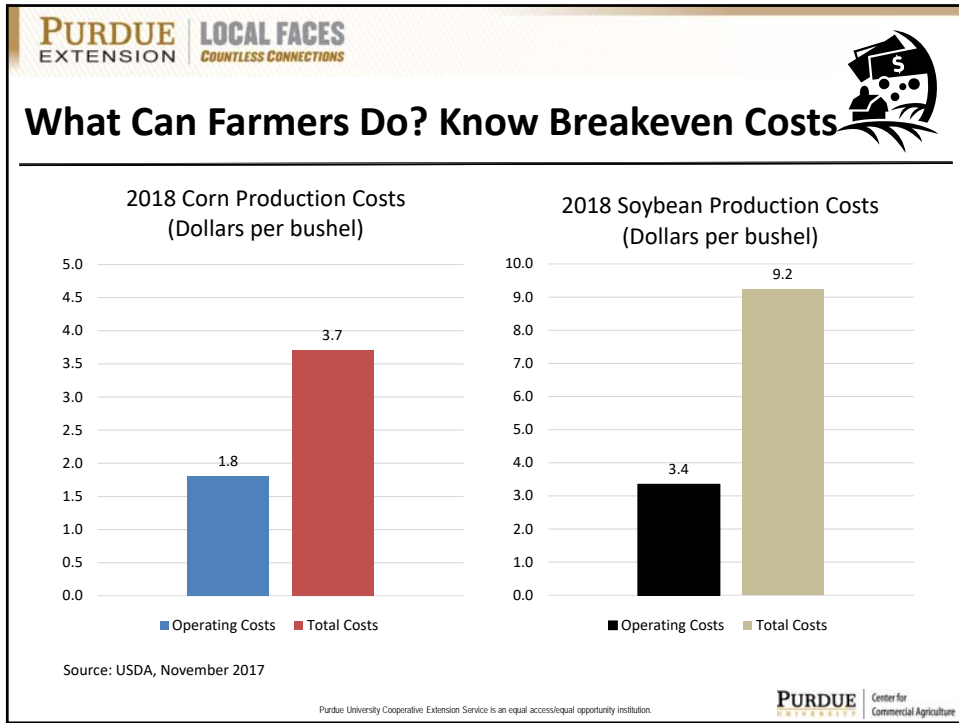
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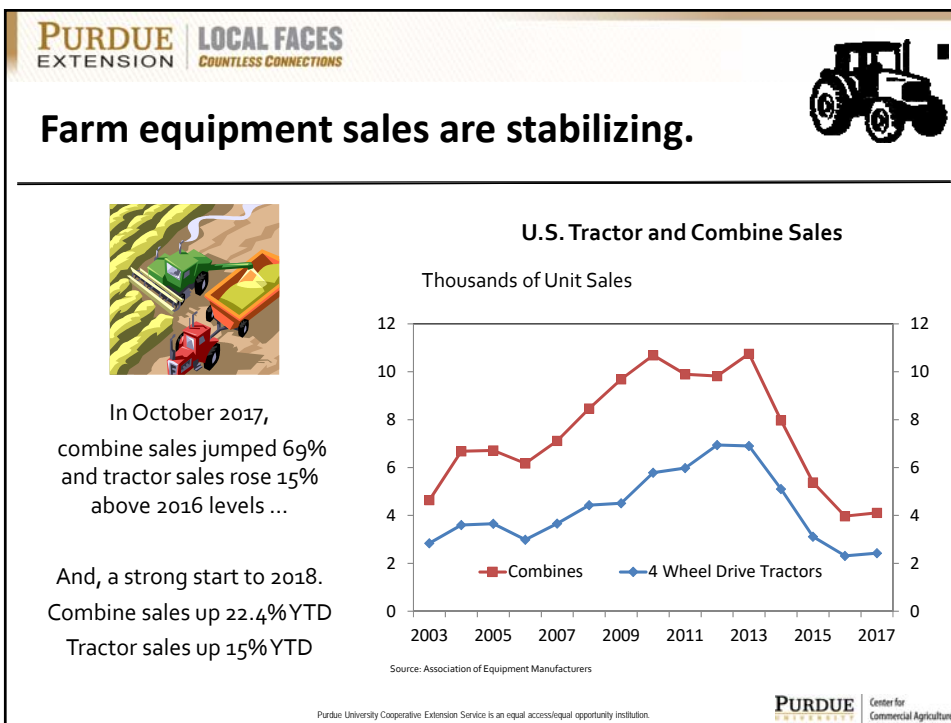
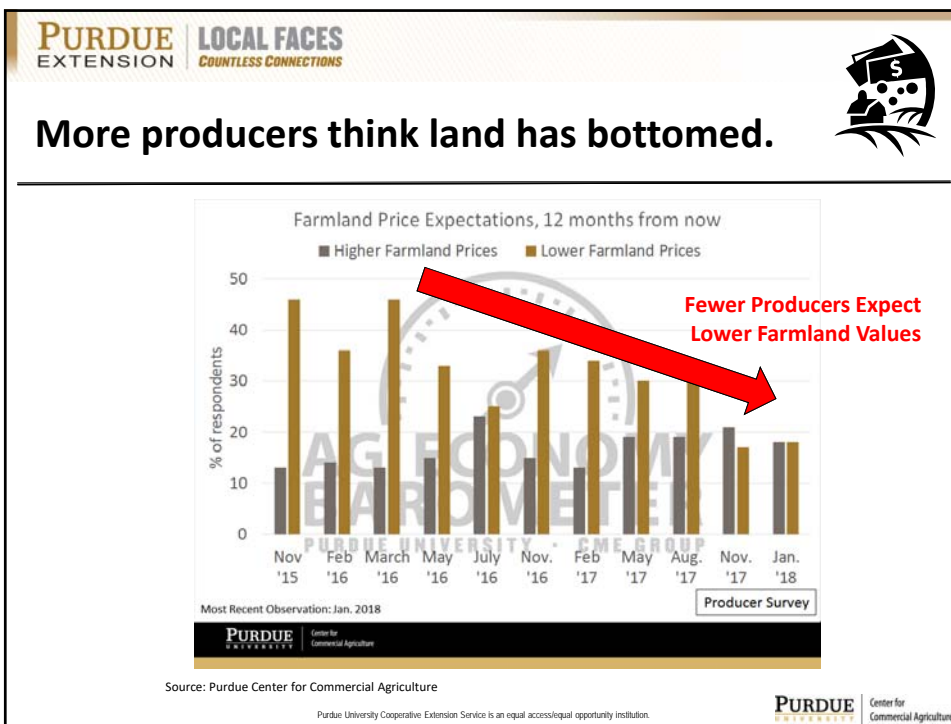


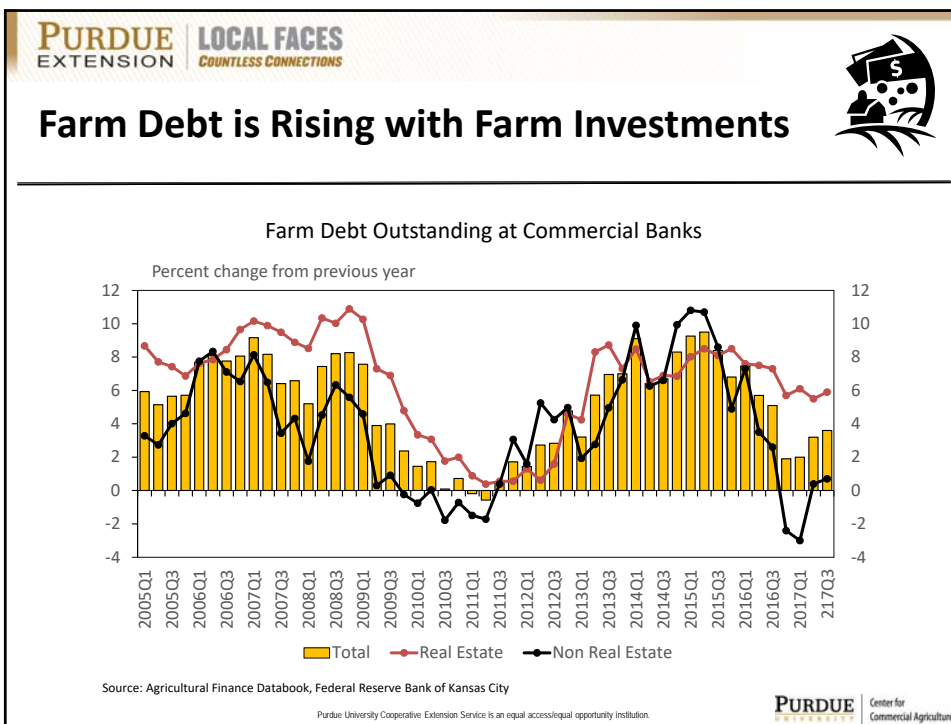












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Robust productivity is needed.

US Potential GDP (Average Annual Growth)

	1950 - 1973	1974- 1981	1982- 1990	1991- 2001	2002- 2007	2008- 2016	2017- 2027
Potential GDP	4.0	3.3	3.2	3.2	2.8	1.4	1.8
Potential Labor Force	1.6	2.5	1.6	1.3	0.9	0.5	0.5
Potential Labor Force Productivity	2.4	0.8	1.6	1.9	1.9	0.9	1.3

Source: Congressional Budget Office, "The Budget and Economic Outlook" January 2017
<https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/52370-budeconoutlook.pdf>

How do we build the most productive labor force in our history?

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**Where will productivity come from?
Value or Efficiency**


$$\text{Productivity} = \text{Value} \times \text{Efficiency}$$

(Dollars per Input) (Dollars per output) (Output per Input)

Value is Demand, Customer Oriented Efficiency is Supply, Producer Oriented




Orange Corn

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Value Comes from the Consumer

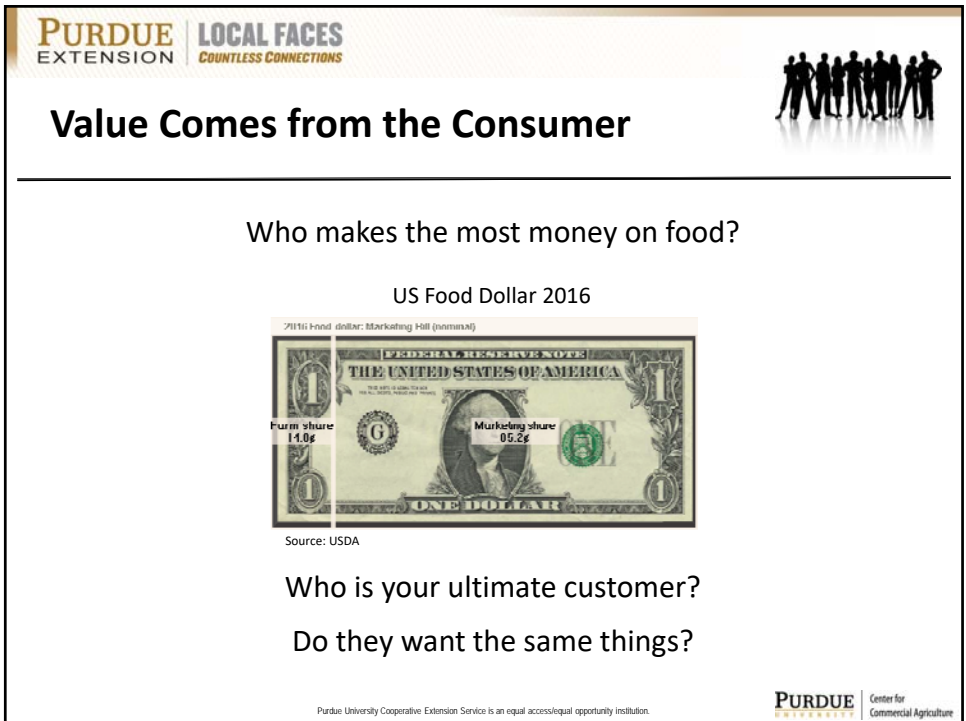
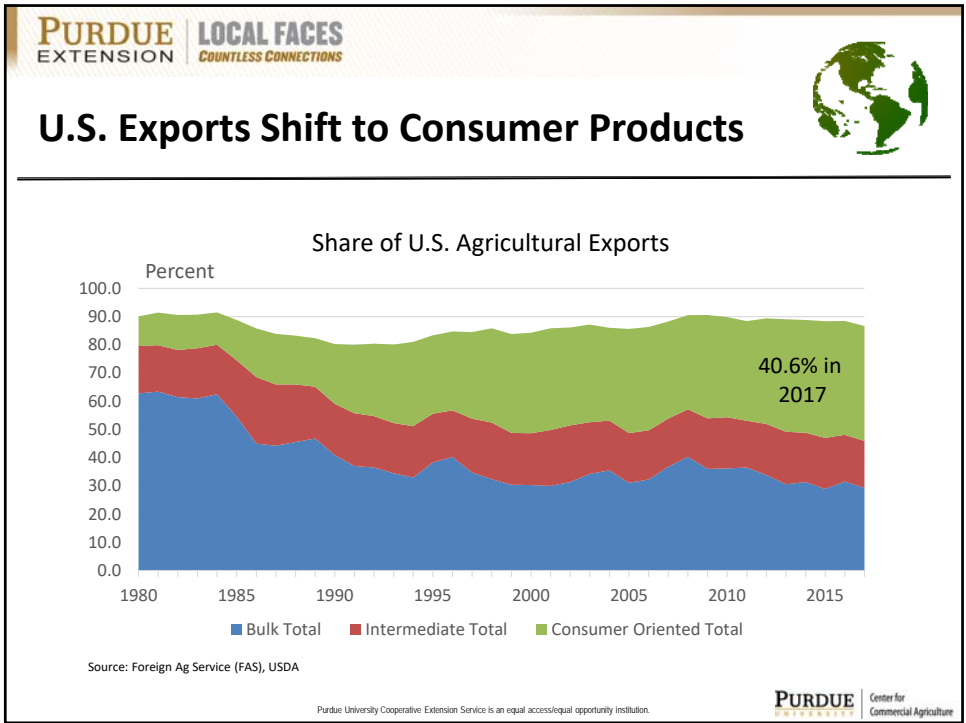


Who is the ultimate customer?

Do they want the same things?

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Conclusions

- Volatility: The Next State of the Ag Cycle?
- Several Risks Remain: Debt, Inflation, Interest Rates, Exchange Rates, Trade Wars ...
- Two keys to success:
 Creating Value and Driving Efficiency

