Market Outlook 2015

February 5, 2014
Big Picture, Big Questions

- Will rail continue to de-rail ag?
- How low can oil prices go?
- Will cattle prices ever drop?
- Will the bull market keep moooving upward?
- Are good times for stocks good for ag?
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The Year that Was

- Bad weather, good weather, “too much” good weather.
- Transportation and infrastructure issues.
- Signs of dropping prices and farmland values.
- 2014 Farm Bill.
- International turmoil.

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MT Wheat Production Trends
MT Winter Wheat Production Trends

Value:  
- < 0.5 mil bu
- 0.5 – 1 mil bu
- 1 – 5 mil bu
- > 5 mil bu

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MT Winter Spring Production Trends

Value

< 0.5 mil bu
0.5 – 1 mil bu
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> 5 mil bu
**MT Wheat Sales Trends**

*Note: 2014–15 values assume Dec 2014 prices, $5.84/bu HRW and $5.80/bu HRS.*
Why did prices drop in 2013–14?

- Rail issues early.
- Rains late in season.
The Rail Issues

- Statistical regression analysis.
- Weaker than usual basis:
  - HRW (11% protein): $0.13–$0.24 lower in April–May 2014.
  - HRS (13% protein): $0.12–$0.66 lower in Feb–May 2014.
The Rail Issues

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Are Rail Issues Going to Persist?
BNSF Carload Reports for Grain, 2014
U.S. Secondary Rail Markets

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NYMEX Oil Futures Price Trends
The Rain Issues

Impacts on Hard Red Spring Wheat

<table>
<thead>
<tr>
<th></th>
<th>2014, By Protein</th>
<th>2013 Overall</th>
<th>5-year Avg</th>
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<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Med</td>
<td>High</td>
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<tr>
<td>Test weight (lb/bu)</td>
<td>61.2</td>
<td>61.6</td>
<td>60.8</td>
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<tr>
<td>Damaged kernels (%)</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
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<tr>
<td>Vitreous kernels (%)</td>
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<td>47</td>
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<tr>
<td>MT</td>
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<td>ID/OR/WA</td>
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MT Wheat Price Trends

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Why are prices heading down?

- Inventories are high (and maybe underestimated).
U.S. Wheat Inventories

![Graph showing U.S. wheat inventories from 1990 to 2014, with data points for production, available inventories, and consumption.]
Why are prices heading down?

- Inventories are high (and maybe underestimated).

- Good weather so far across Great Plains.

- Trade uncertain:
  - Dollar strengthening (reduce demand).
  - Higher production globally (reduce demand).
  - FSR area issues: winterkill, drought, political barriers (increase demand).

- Corn prices declining.
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MT Barley Production Trends

[Graph showing MT Barley production trends over years 1990 to 2015]

Barley production, in million bushels

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MT Barley Price Trends

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MT Pulse Production Trends

Production, in million pounds

- LENTILS
- PEAS

Production trend

Time trend

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MT Pulse Price Trends

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MT Hay Production Trends

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MT Hay Price Trends

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Looking Forward to 2015

- Montana:
  - Weather looking good!
  - HRW/HRS price relationships return to normal, but weaker.
  - Barley demand projected weaker; slight price decline.
  - Pulse markets continue to be relatively strong.
Looking Forward to 2015

- **National:**
  - Okay moisture across Great Plains; some worries.
  - Rail issues likely to continue in central Great Plains.
  - Continued droughts in CA, OR, TX—impacts on hay.

- **Global:**
  - High world inventories and production.
  - Strong dollar.
  - Russia, Ukraine, Canada.
The Year that Was

- Demand remains strong.
- Prices remain strong.
- Corn prices begin decline.
- Feedlot profit margins higher.
U.S. Cattle Production & Inventory
MT Cattle Inventories
Production Fundamentals, Weather

U.S. Drought Monitor

January 20, 2015
(Released Thursday, Jan. 22, 2015)
Valid 7 a.m. EST

Intensity:
- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

Delineates dominant impacts

Drought Impact Types:
- S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Author:
Richard Tinker
CPC/NOAA/NWS/NCEP

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Market Outlook 2015
Production Fundamentals, Weather

**U.S. Seasonal Drought Outlook**
Drought Tendency During the Valid Period

*Valid for January 15 - April 30, 2015*
*Released January 15, 2015*

Depicts large-scale trends based on subjectively derived probabilities guided by short- and long-range statistical and dynamical forecasts. Short-term events -- such as individual storms -- cannot be accurately forecast more than a few days in advance. Use caution for applications -- such as crops -- that can be affected by such events. "Ongoing" drought areas are approximated from the Drought Monitor (D1 to D4 intensity). For weekly drought updates, see the latest U.S. Drought Monitor.

**KEY:**
- Drought persists or intensifies
- Drought remains but improves
- Drought removal likely
- Drought development likely

Author: David Miskus, Climate Prediction Center, NOAA

NOTE: The tan areas imply at least a 1-category improvement in the Drought Monitor intensity levels by the end of the period although drought will remain. The green areas imply drought removal by the end of the period (D0 or none)
Production Fundamentals, Corn Price
Production Fundamentals, Calf Demand

Estimated Returns to Finishing Steer Calves, Iowa
Jan-04 through December-14

Source: Lee Schulz, Iowa State University
MT Price Trends

MT Calf Price, in 2014 dollars (per cwt)

$100 $150 $200 $250


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Looking Forward to 2015

- More of the same.

- Feedlots rebuilding inventories:
  - Higher demand for feeder steers.
  - Cattle held back to rebuild herds (lower supplies).

- Pasture conditions are relatively good.
THE YEAR THAT WAS

- Another bull year: returns of 10%–12%.

- Low volatility.

- Russia invades/annexes Crimea; EU/US imposes sanctions.

- Oil prices peak, then nose dive.

- Quantitative easing (version 3.0) ends.

- Republicans take control of Congress.
S&P 500 Trends
Dow Jones Industrial

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NASDAQ

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What Factors Will Play a Role in 2015?

- Stronger dollar.
Exchange Rates of the USD

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What Factors Will Play a Role in 2015?

- Stronger dollar.
- Federal reserve’s actions.
- Action in Washington D.C?
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Will Markets Improve in 2015?
Looking Forward to 2015
Looking Forward to 2015


- Inflation unlikely to significantly increase.

- U.S. economy strong.

- U.S. buoys world? World drags down world?

- Real estate market atypical, still weak.

- U.S. fiscal policy: Will austerity measures end?
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Takeaways

- Crop markets moderately weaker.
- Cattle markets continue strongly.
- Bull markets continue, but returns not as strong.
Thank you for inviting me.

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