



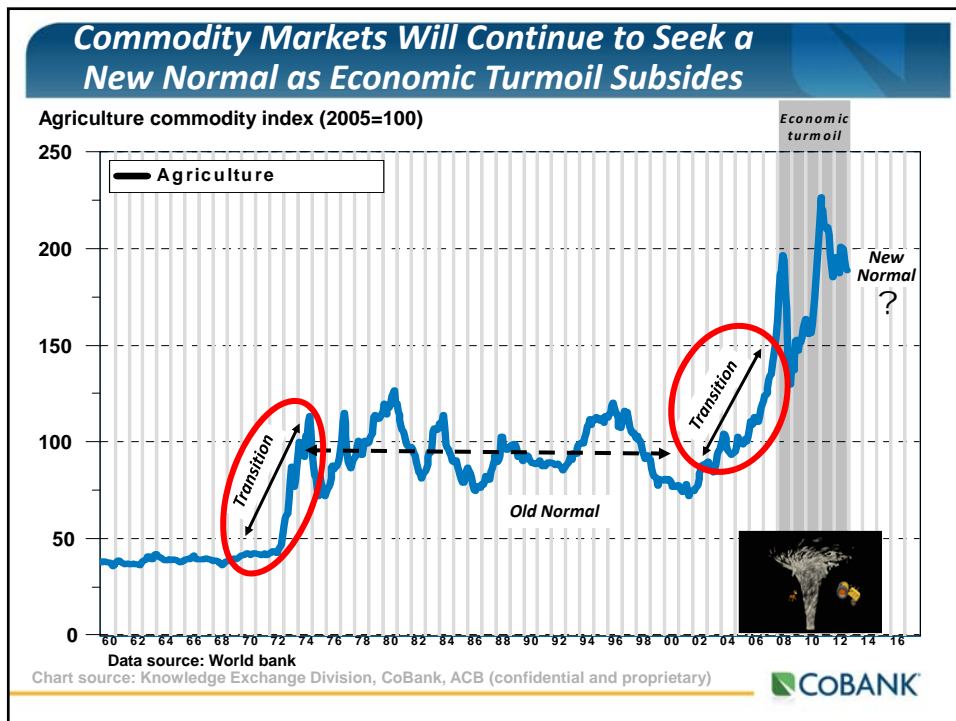
“Drought, Debt and Politics Drive Economic and Poultry Outlook”

Milton L. Dendy
Keynote Address
2013 International
Poultry Scientific Form

Presentation by:
Terry Barr, Senior Director of Industry Research
Knowledge Exchange Division, CoBank, ACB
E-mail: tbarr@cobank.com

Proud Member of the Farm Credit System 





Five Years of Economic and Political Turmoil Will Give Way to A New Environment

<u>The last five years 2008-2012:</u>	<u>The next five years 2013-2017:</u>
Global financial crisis (Lehman)	Sovereign debt/solvency issues
Recessions/rising fiscal deficits	Subdued growth/fiscal austerity
Massive liquidity infusion/ low interest rates (all central banks)	Declining liquidity /rising interest rates as growth rate recovers.
Rapid growth in emerging markets and rising middle class.	Tempered growth in emerging markets; rising middle class
Rising energy prices	New energy paradigm; prices ?
Rapid growth in biofuels linking agriculture commodities to oil.	Peaking in biofuels growth; ag commodities reducing link to oil.
Multi-year weather related crop shortfalls and low grain stocks.	Grain stock rebuilding (weather); catalyst to finding new normal!

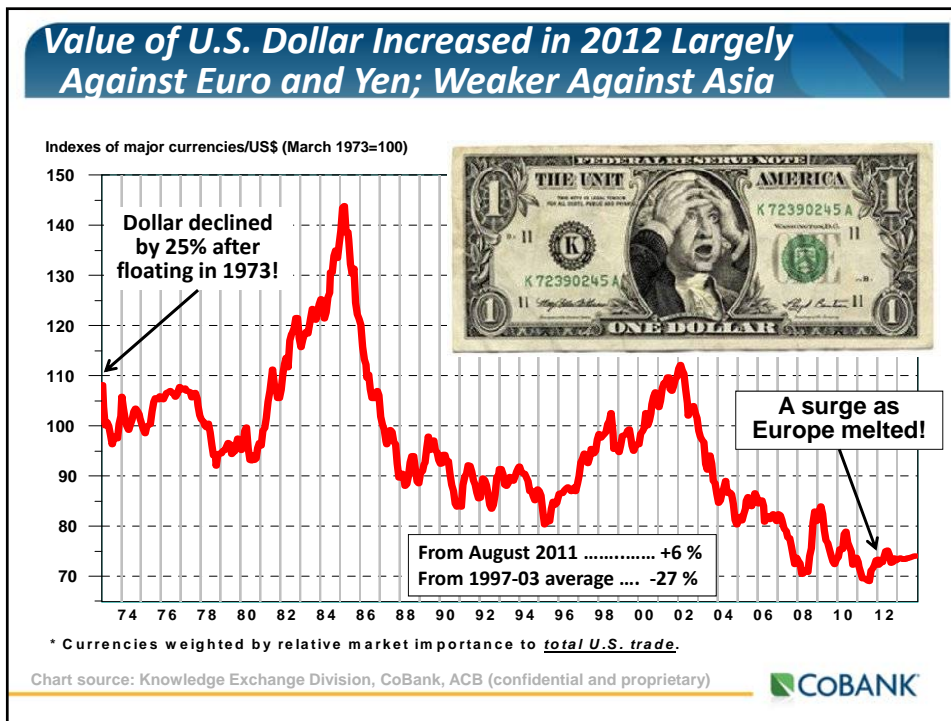
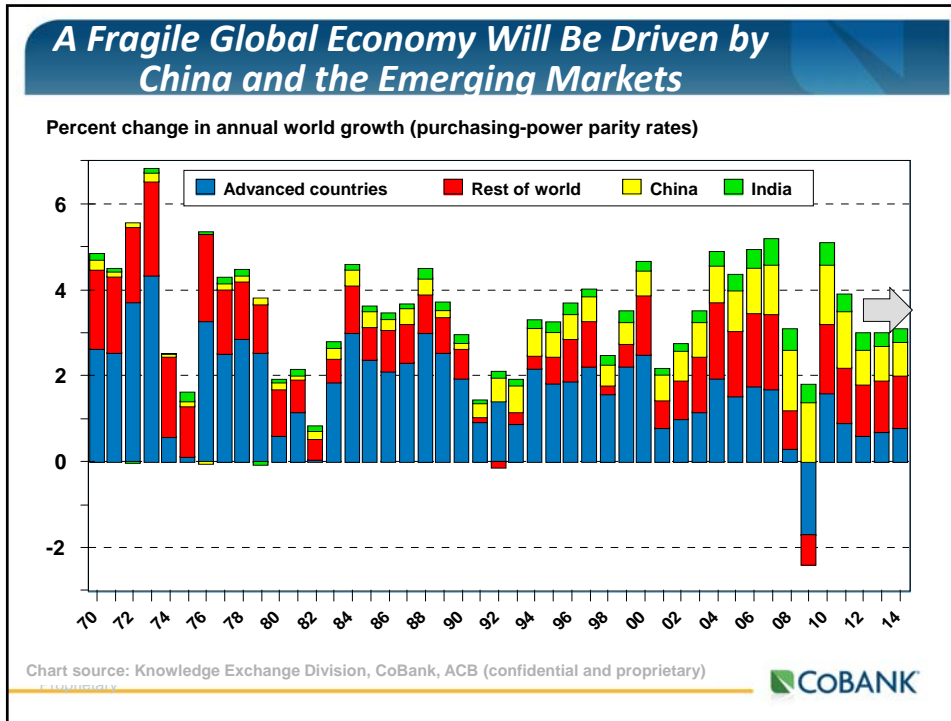
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

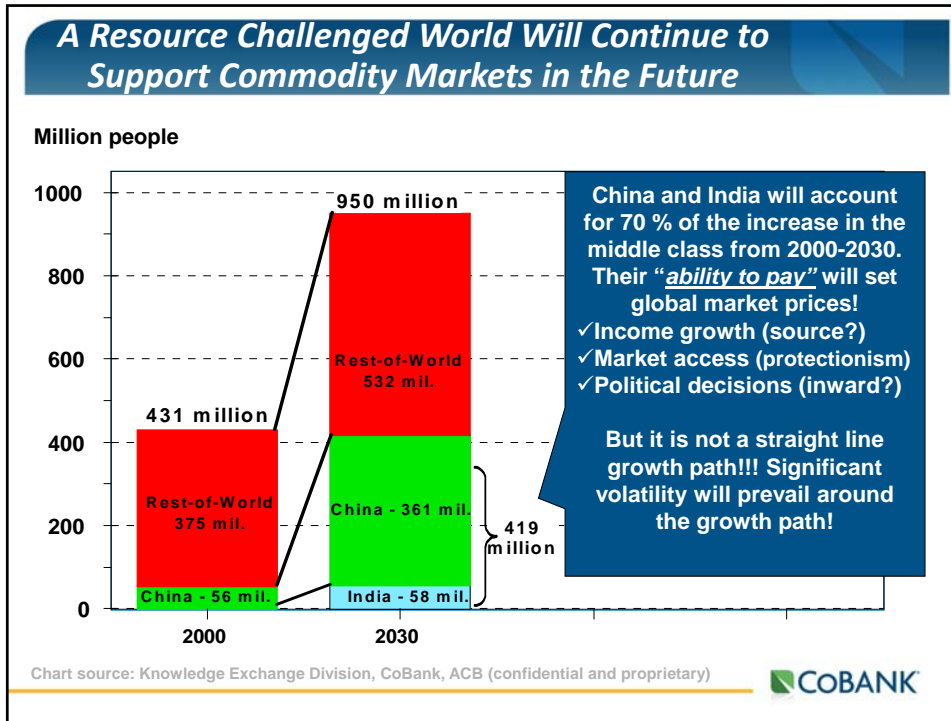
The Path Begins With Strategic Policy Actions or Lack of Actions by Global Leaders

Angela Merkel
German Chancellor
U.S. President

Mario Draghi
ECB President
Christine Lagarde
Managing Director IMF
Ben Bernanke
FED President
John Boehner
Majority Leader
Harry Reid
Senate Leader

BIOFUELS
ETHANOL FUEL
Black Swans
Xi Jinping
New President of China





Euro Region Struggling to Transition

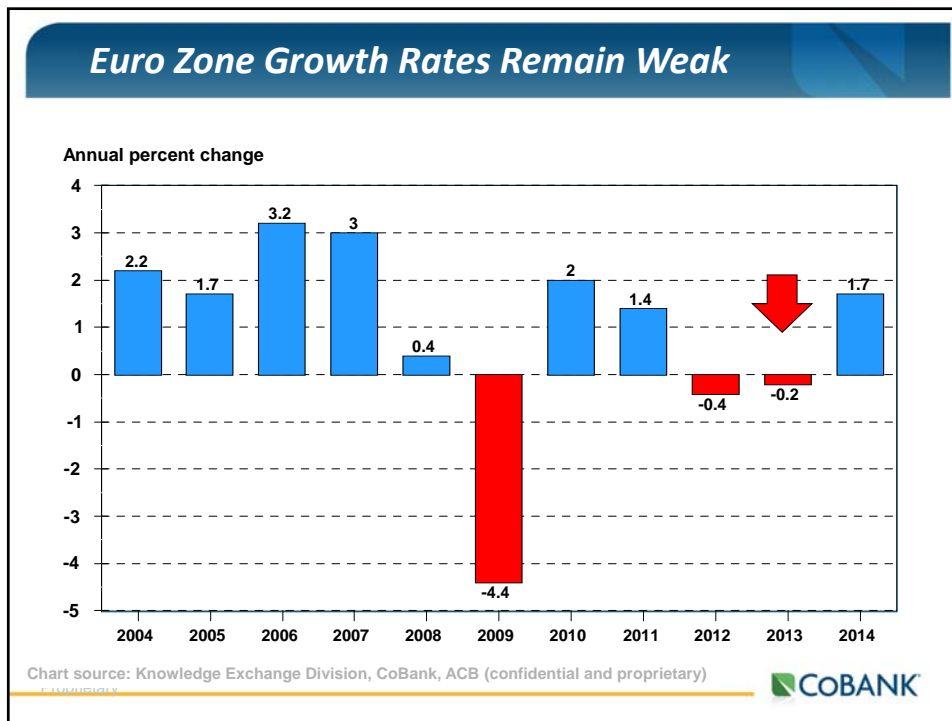
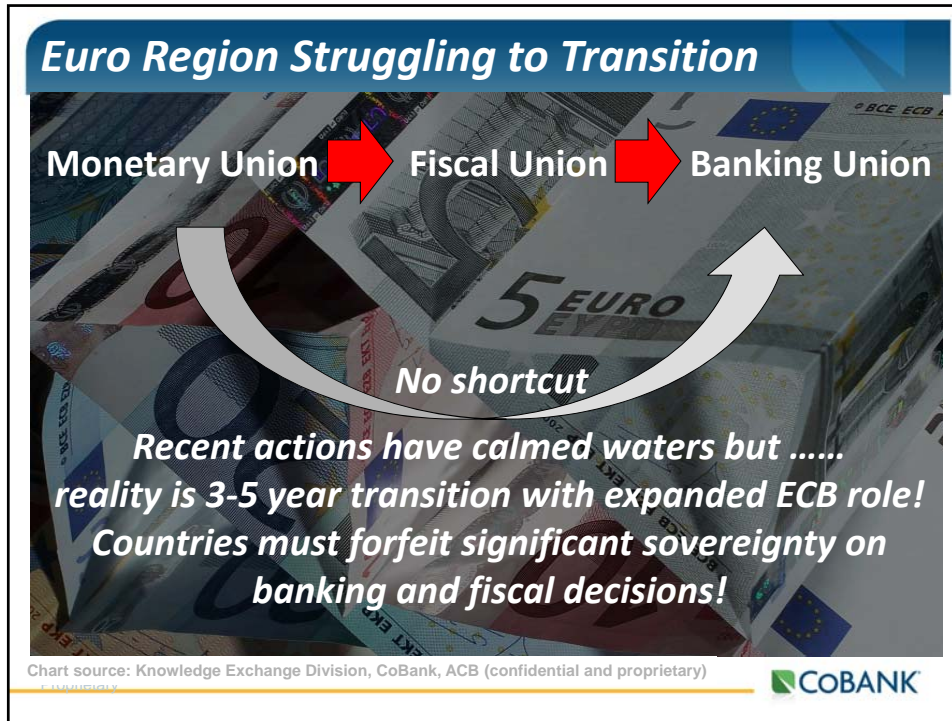
German elections in September will limit significant policy changes in 2013!

Angela Merkel
German Chancellor

Mario Draghi
ECB President

Christine Lagarde
Managing Director IMF

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



China Is in a Leadership Transition and Remains #1 U.S. Agriculture Export Market



Xi Jinping
 New President of China

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)




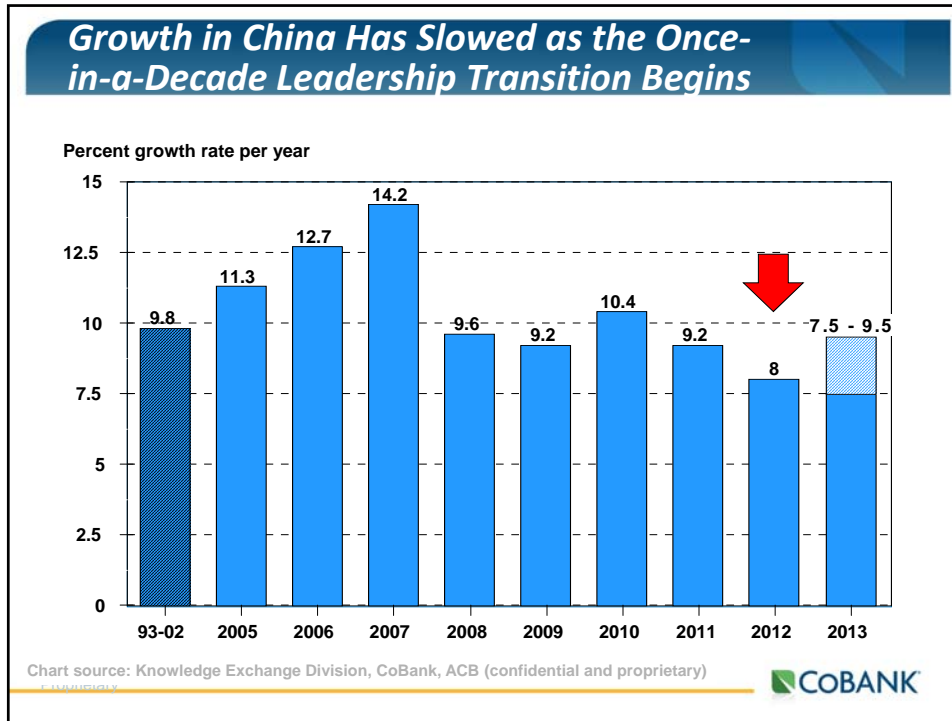
The Largest Chinese Trading Partners Drive China's Economic Growth Potential

<u>Region</u>	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
European Union	356.0	211.2	+144.8
United States	324.5	122.2	+202.3
Hong Kong	268.0	15.5	+252.5
ASEAN	170.1	192.8	-22.7
Japan	148.3	194.6	-46.3
South Korea	82.9	162.7	-79.8
India	50.5	23.4	+27.1
Russia	38.9	40.3	-1.4
Taiwan	35.1	124.9	-89.8

2012 trade statistics

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





U.S. Economic Policy Transitions Will Create Headwinds for Recovery!

U.S. is proposing to undertake major policy reform:

Financial sector	Financial sector regulatory reform implementation
Energy sector	New energy paradigm; Fracking technology changes landscape! Comprehensive reassessment
Immigration	Reform groundwork being laid for 2013
Health care sector	Uninsured, medicare / medicaid reform?
Regulatory oversight	Clean air & water, Food safety
Deficit reduction	Changing tax policy and entitlement programs (including farm and food programs).

Virtually every sector of the economy will be impacted and risk management and investment strategies cannot deal with uncertainties. Companies can measure and adjust to risk based on a set of rules. Can't assess uncertainty!

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



Too Much Uncertainty to Build Base for Rapid Recovery in U.S. Economy

Percent change in quarterly Gross Domestic Product (Chained 2005\$)*

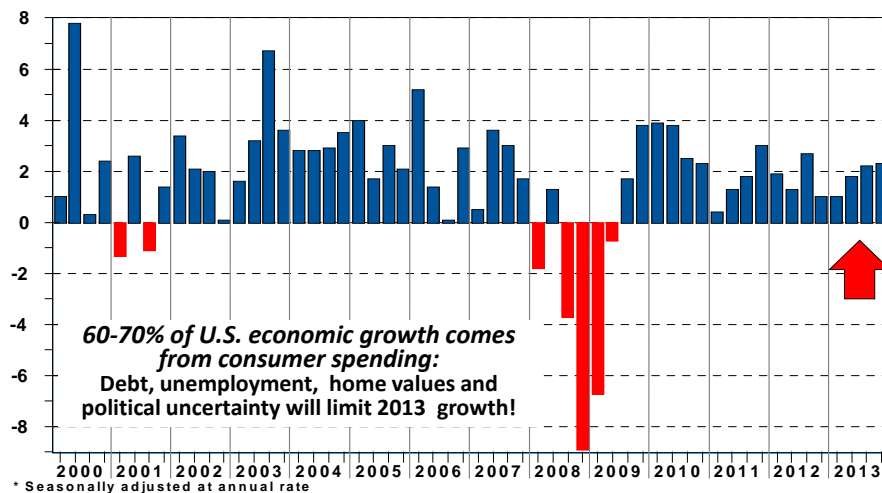
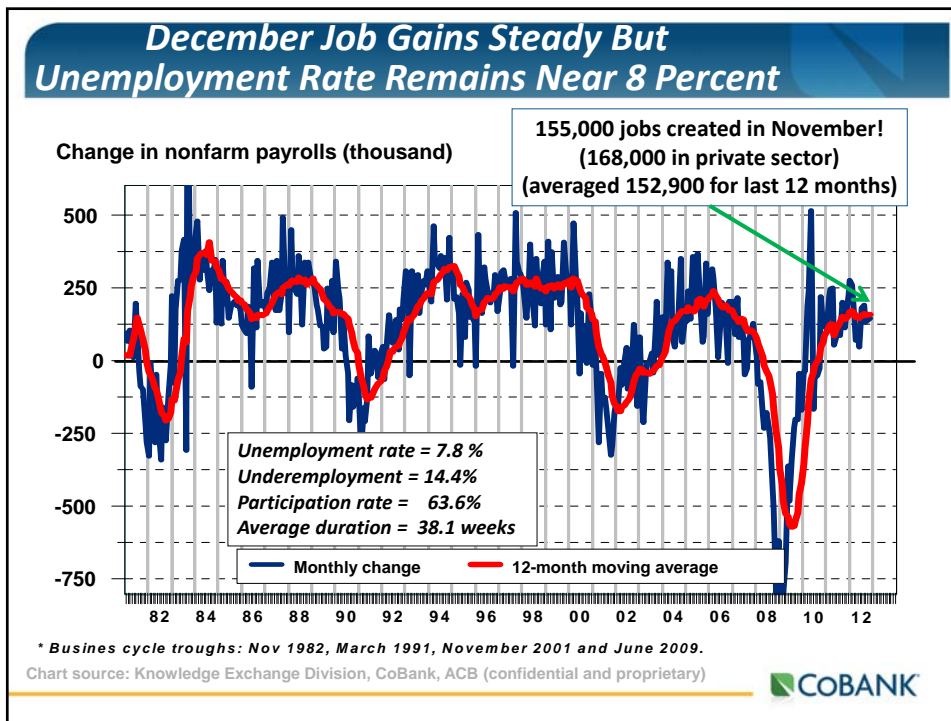
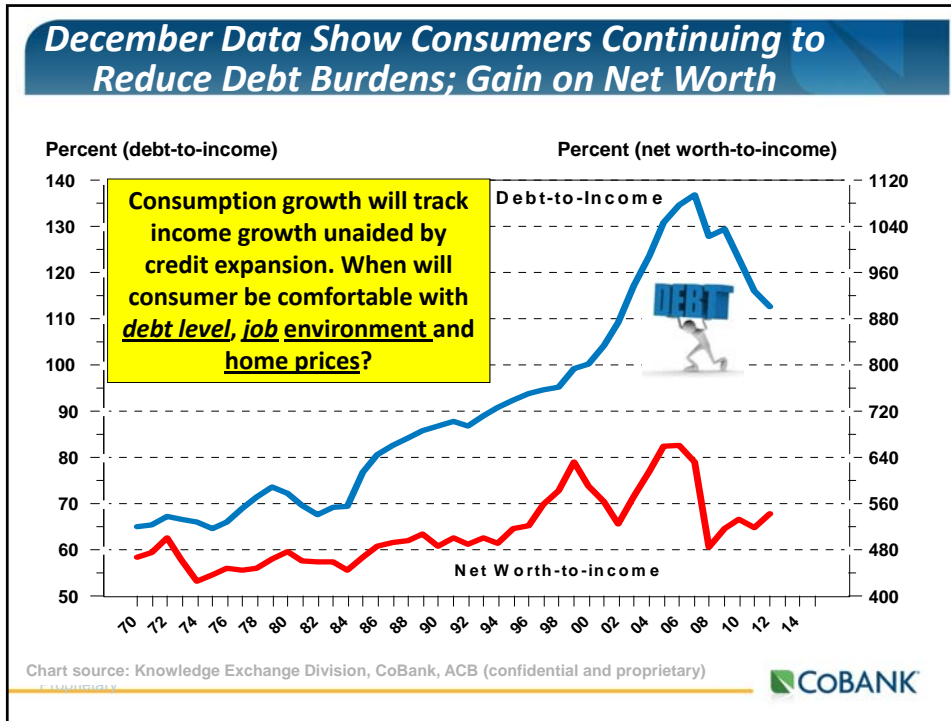
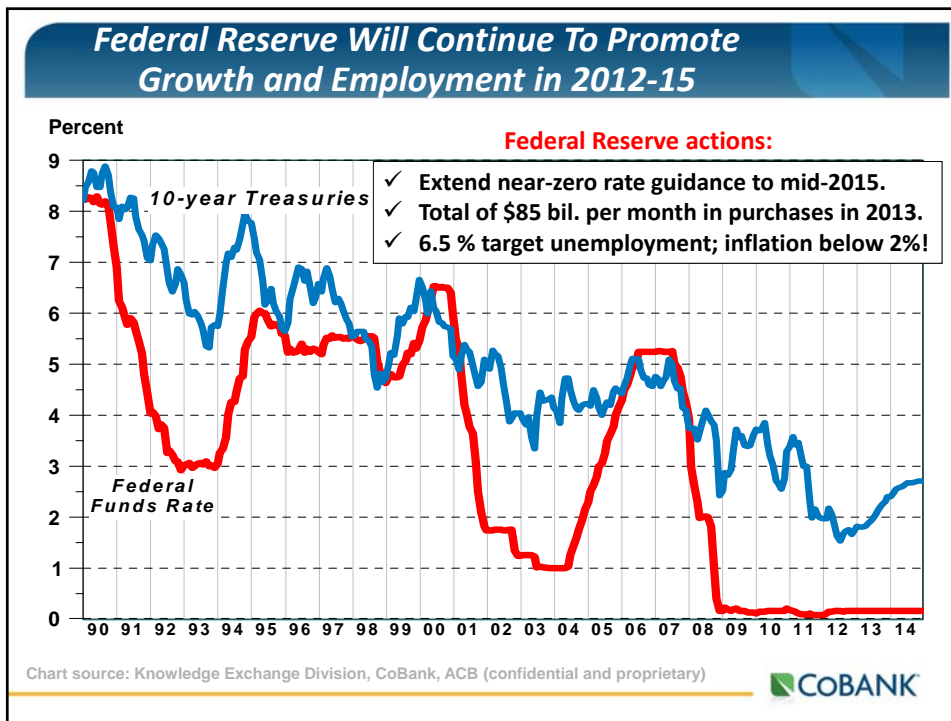
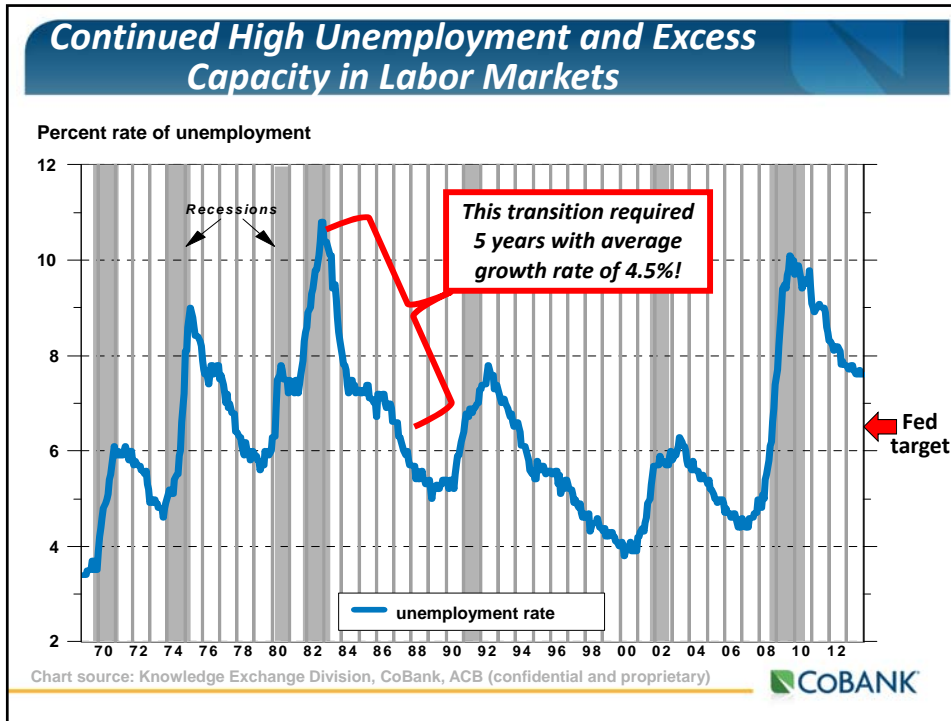


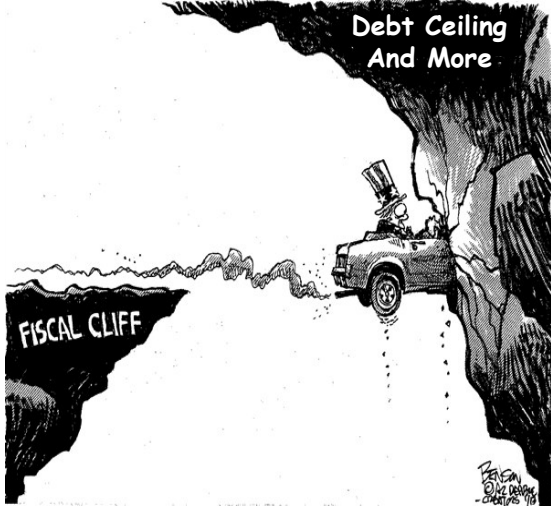
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)








Congress Kicks the Can Past First Deadline

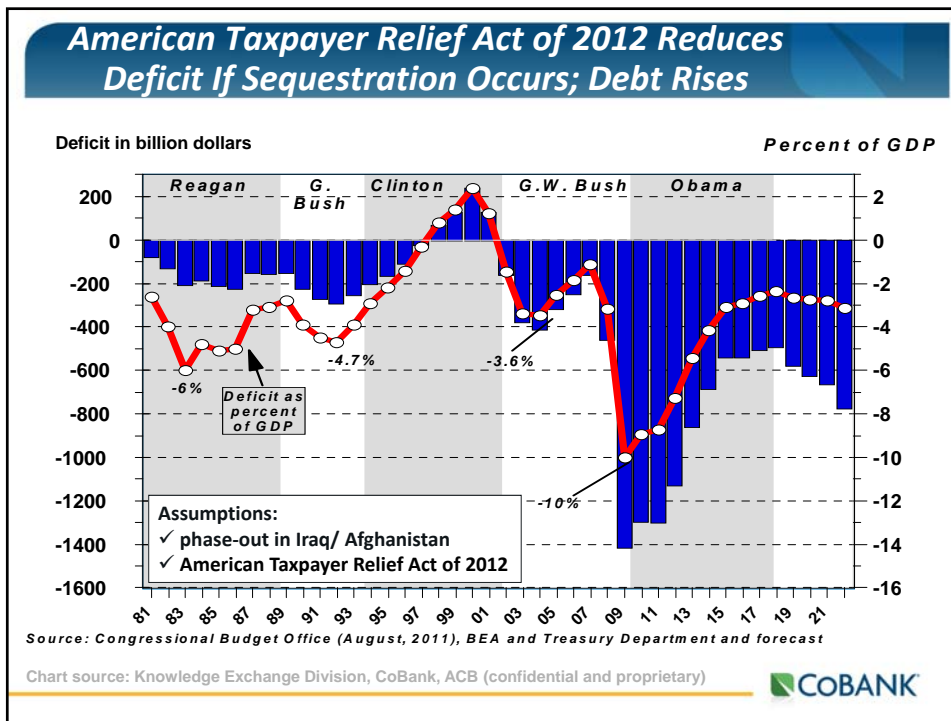


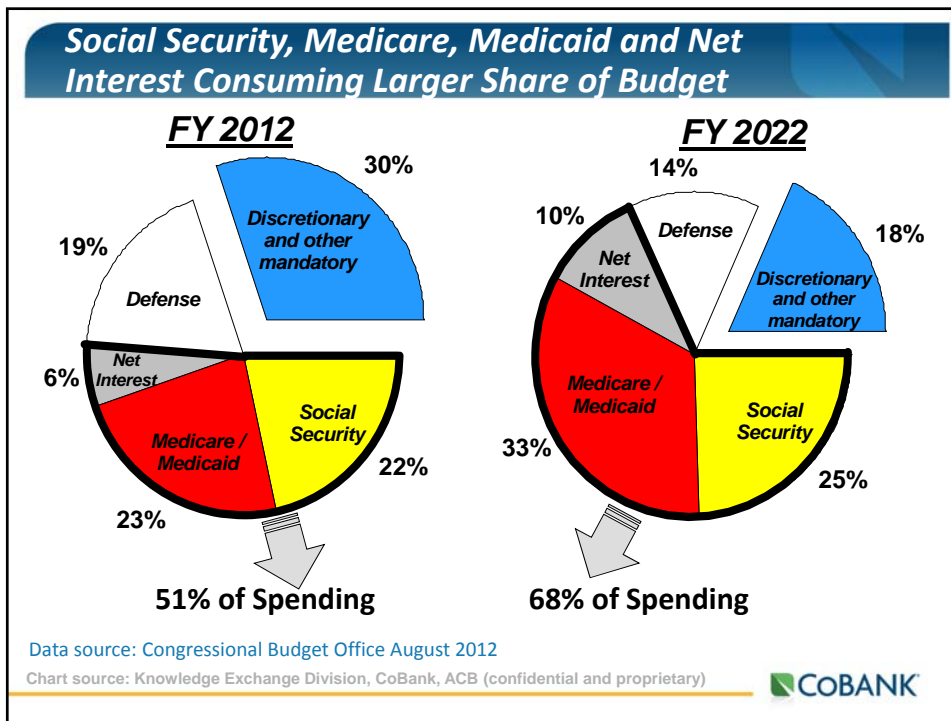
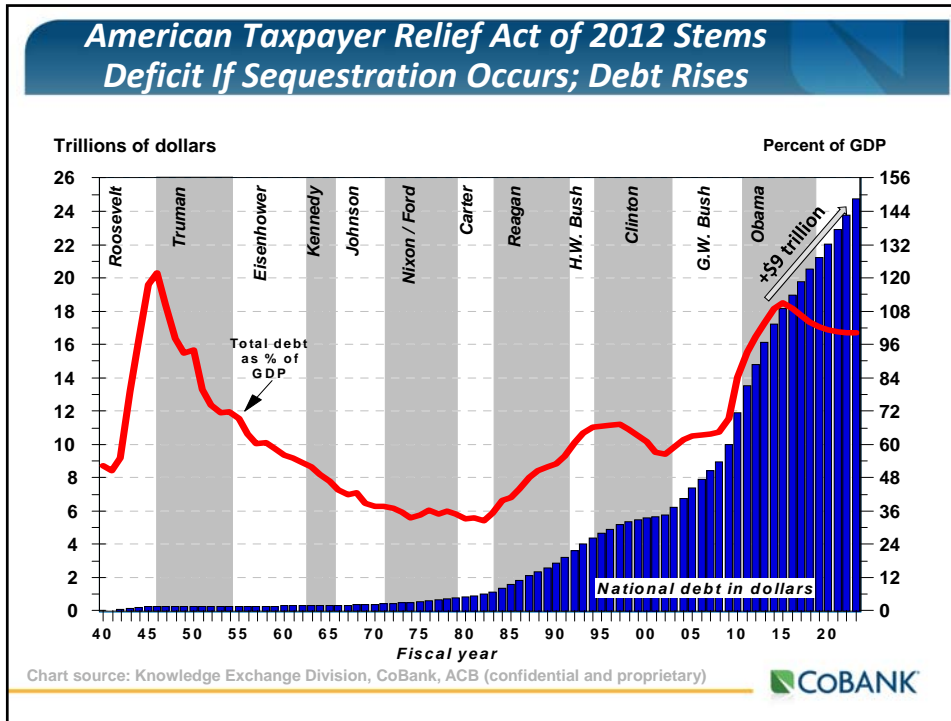
U.S. debt ceiling extended to May 18th. Need budget resolution in House and Senate by April 15. Ceiling debate again in July?

March 1 will trigger sequestration (\$1.2 trillion over 10 years) unless Congress delays action or agrees on deficit package.

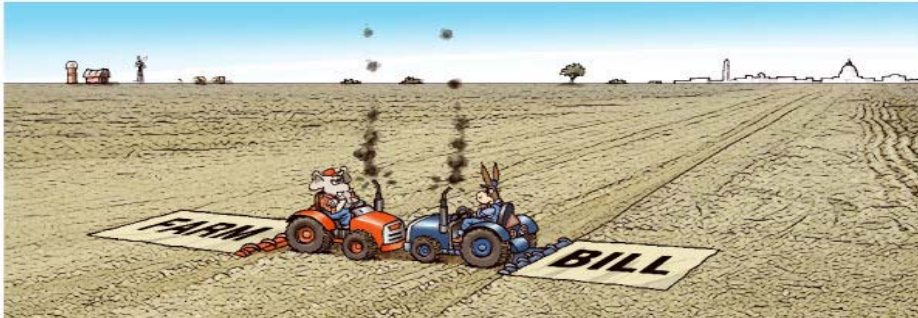
March 27 the continuing budget resolution for FY2013 will expire. Congress must extend or pass appropriations bills.








Farm Bill Progress Will Begin After Major Budget Issues Have Been Resolved!



- ✓ What reductions will be required: House \$23 bil. / Senate \$35 bil. \$14-15 bil. cuts in commodity/insurance/conservation.
- ✓ What is Feb. baseline for cuts better prices / lower base.
- ✓ Eliminate some direct payments; impose payment limitations.
- ✓ Crop/revenue insurance expanded ; means tested subsidies?
- ✓ Base versus planted acreage

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



But Energy Policy Transitions Will Be Major Wildcard Going Forward




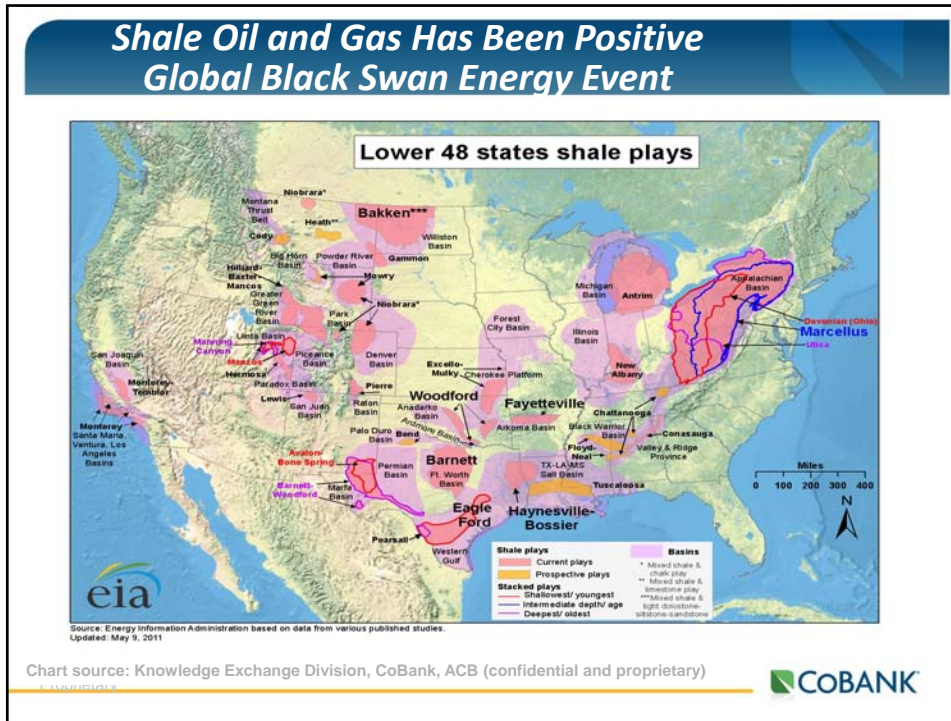
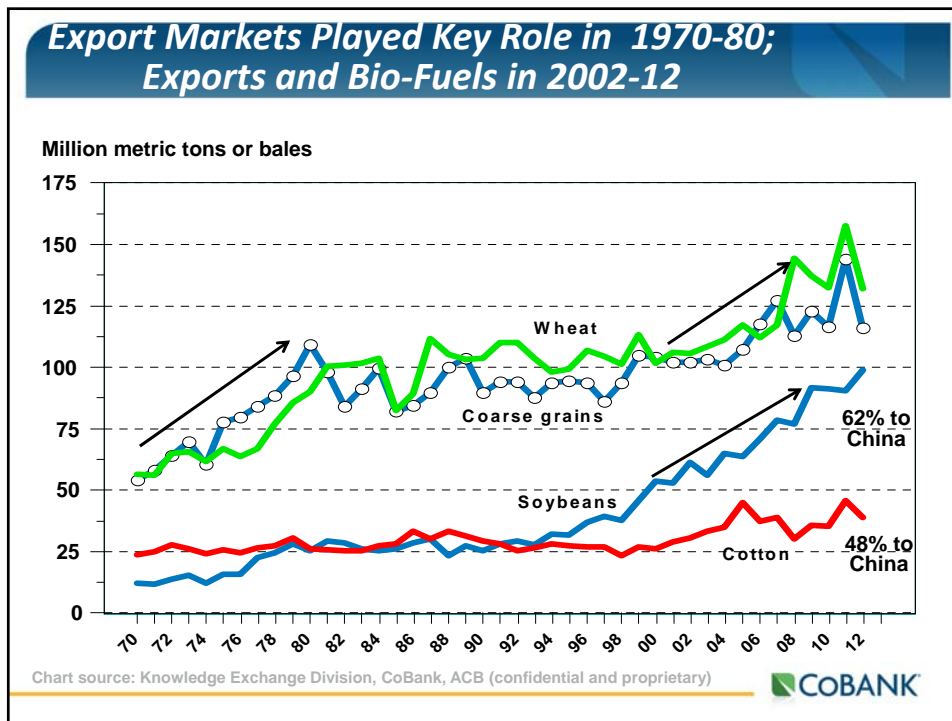
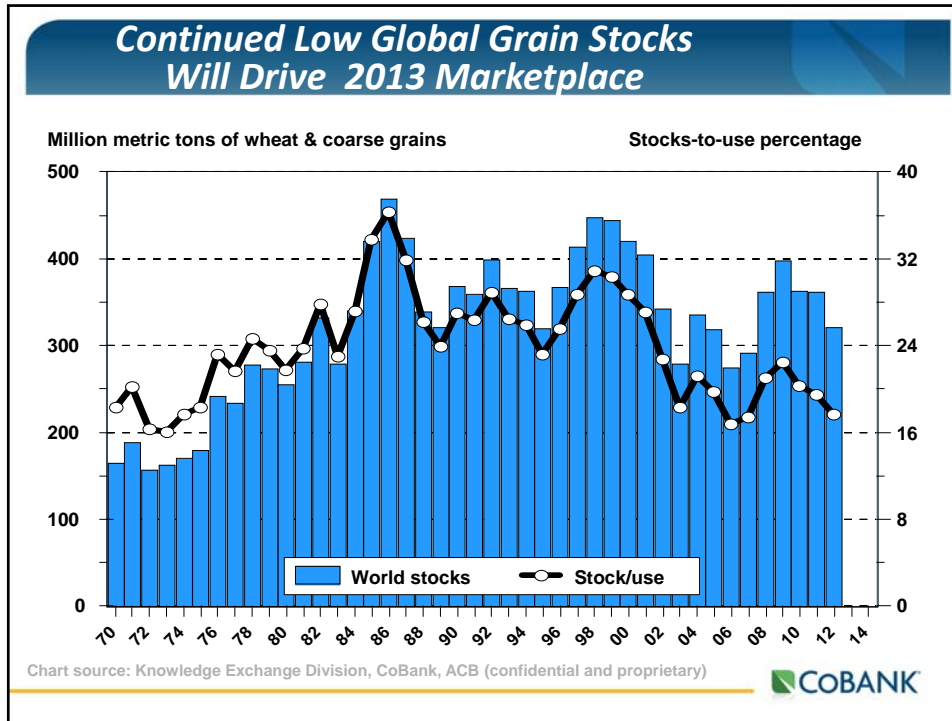
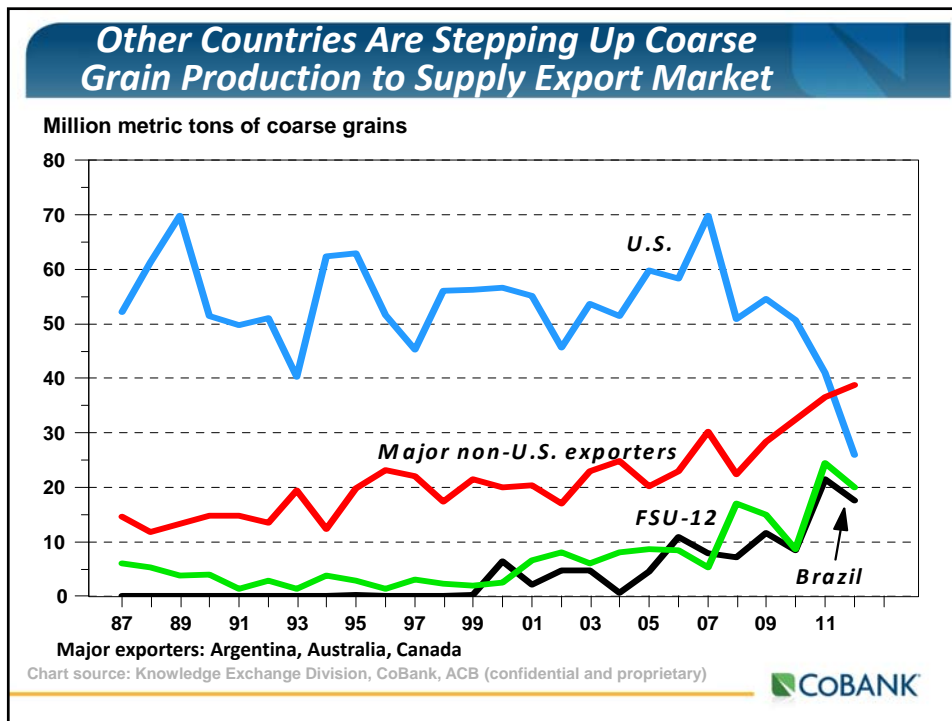
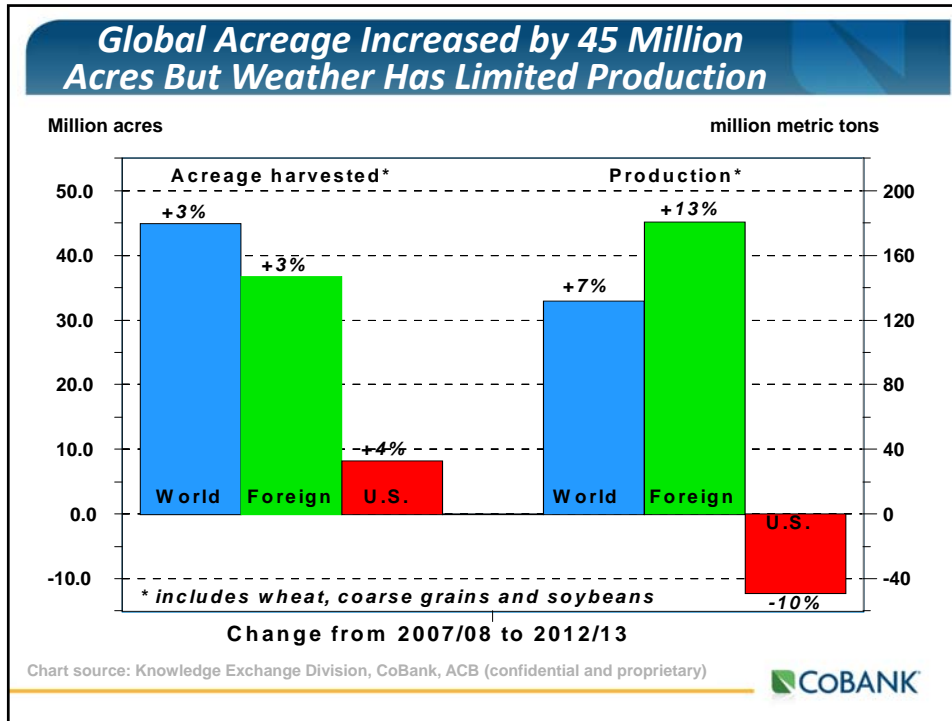


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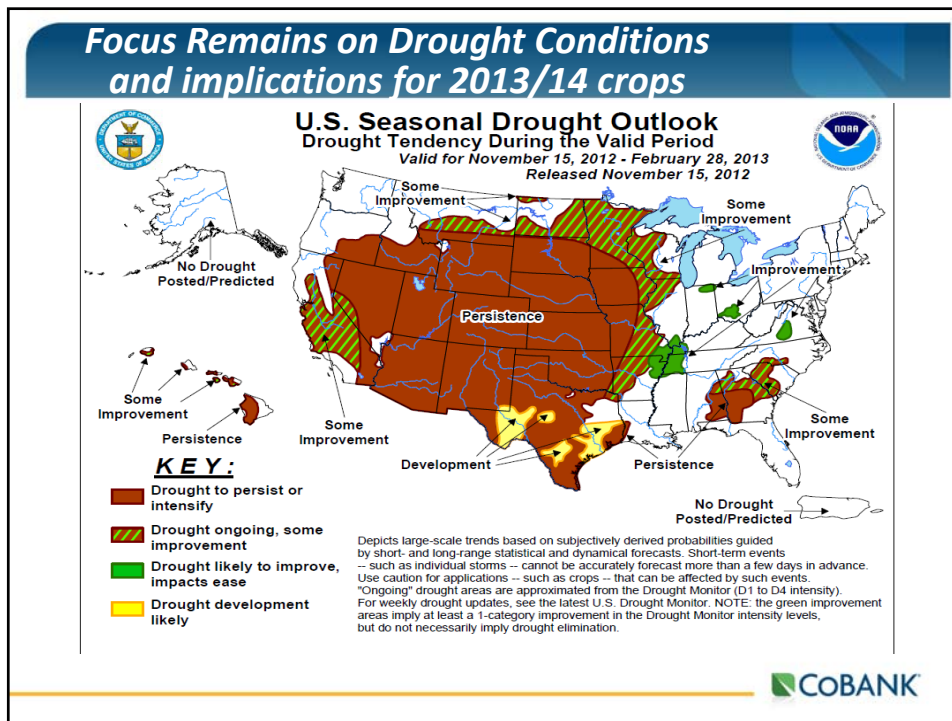


Large Planted Acreages Will Boosts 2013 Production Potential

	2009	2010	2011	2012	2013	Change 12 to 13
	----- million acres -----					
Corn	86.5	88.2	91.9	97.2	98.1	0 to +2
Soybeans	77.5	77.4	75.0	77.2	77.0	-1 to 0
Wheat	59.2	53.6	54.4	55.1	58.8	+3 to 4
Upland Cotton	9.1	11.0	14.7	12.3	12.3	0
7 other crops*	20.7	20.4	17.0	20.7	21.0	0 to +1
Hay harvested	59.8	59.9	57.6	58.7	58.7	0 to +1
All crops acreage	319.3	316.7	315.0	325.8	330.0	+5 to 6
CRP	31.3	31.2	31.2	29.7	29.7	0
Total acreage	350.5	348.0	346.0	355.0	360.0	+4 to 5

* Barley, oats, sorghum, rice, sunflowers, peanuts and canola


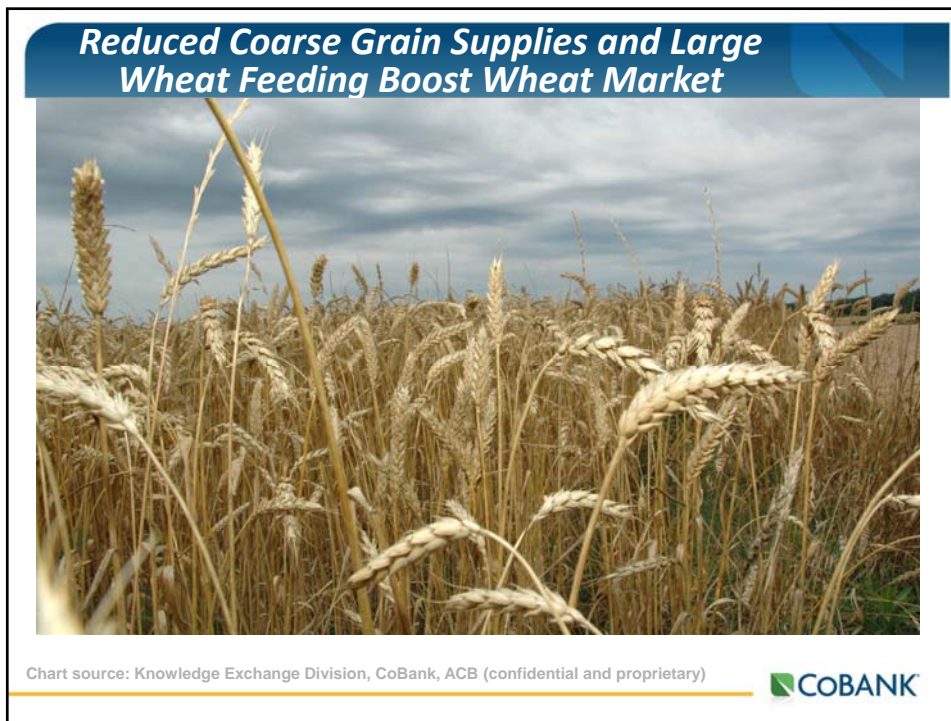
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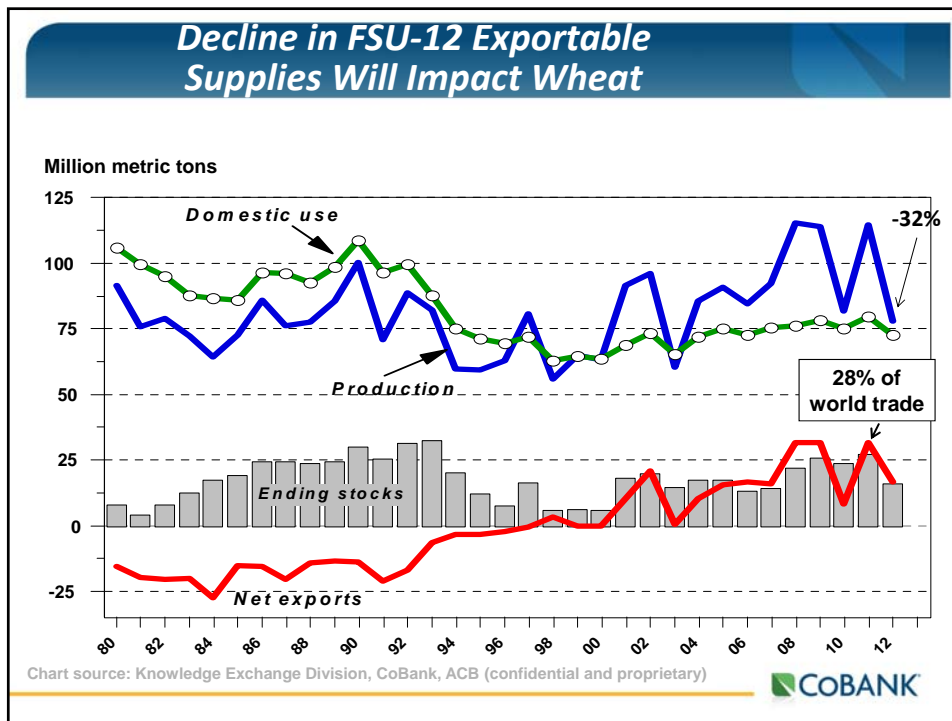
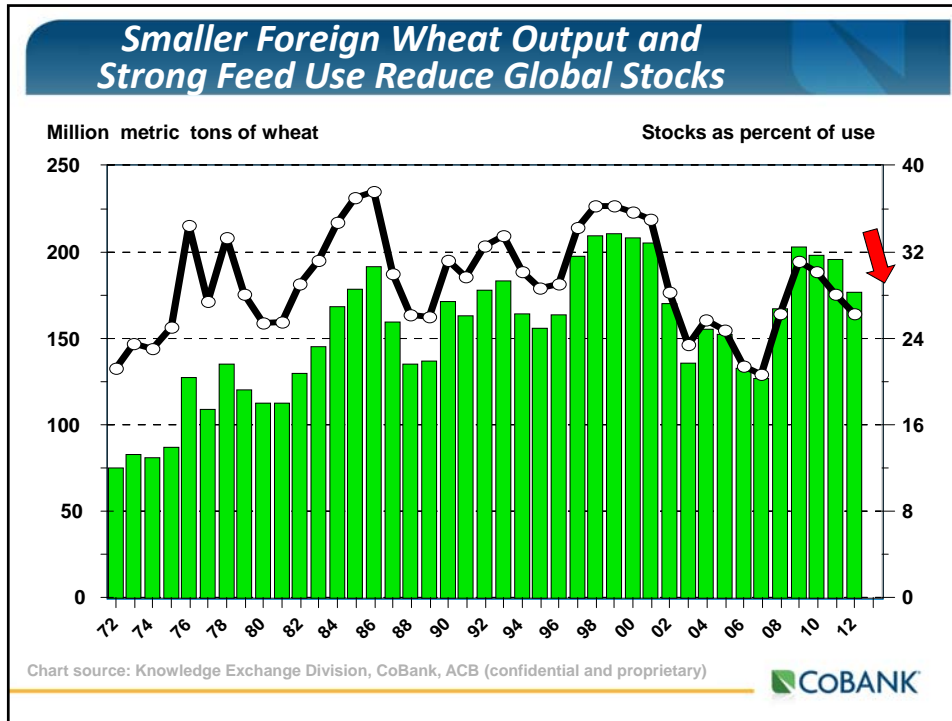



Price Volatility and Risk Management Will Remain Significant Issues in the Future

Year	<u>Corn</u> --- \$/ bushel (Chicago) ---			<u>Soybeans</u> --- \$/ bushel (Chicago) ---			<u>Wheat</u> --- \$/ bushel (Chicago) ---		
	Low	High	Range	Low	High	Range	Low	High	Range
2007	3.09	4.57	1.48	6.57	12.30	5.73	4.12	10.10	5.98
2008	3.06	7.65	4.60	7.76	16.54	8.78	4.71	13.35	8.64
2009	3.02	4.50	1.48	8.38	12.91	4.53	4.39	6.77	2.38
2010	3.24	6.30	3.06	9.00	13.95	4.95	4.26	8.41	4.16
2011	5.72	8.00	2.28	10.94	14.57	3.63	5.72	8.97	3.25
2012	5.51	8.44	2.93	11.50	17.89	6.39	5.90	9.47	3.57
2008-12	4.11	6.98	2.87	9.52	15.17	5.65	5.00	9.39	4.39

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



Uncertainties Over U.S. Corn Crop Dominate Market Developments


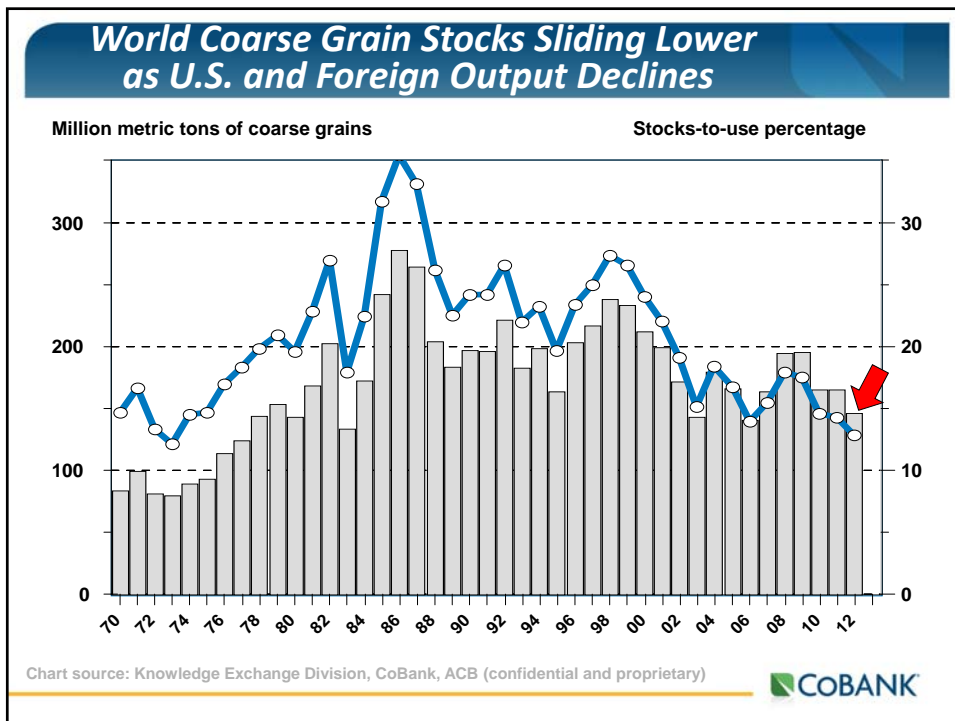

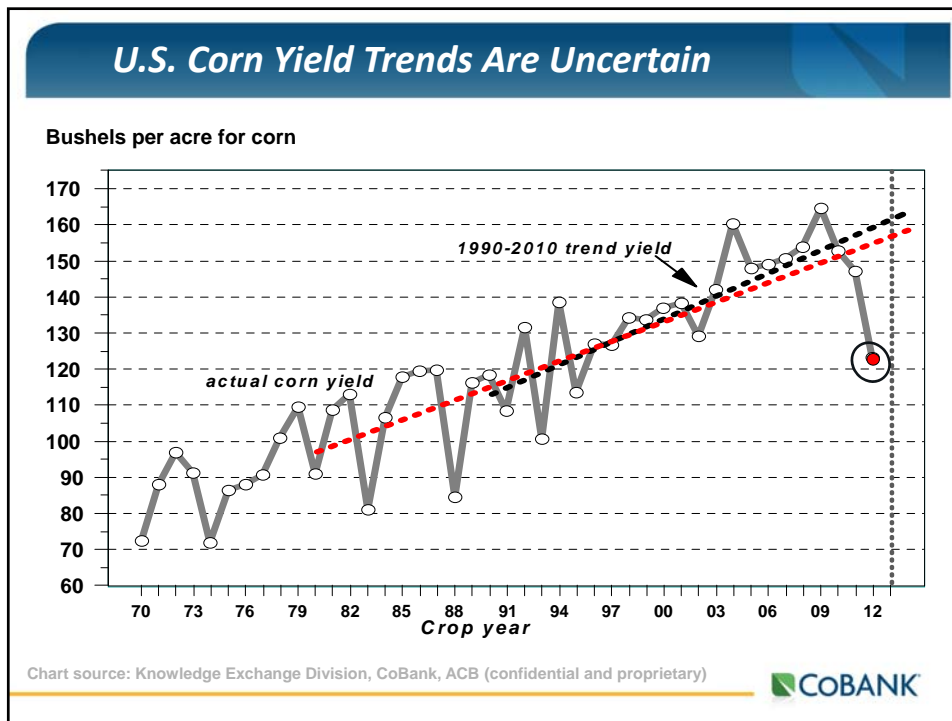
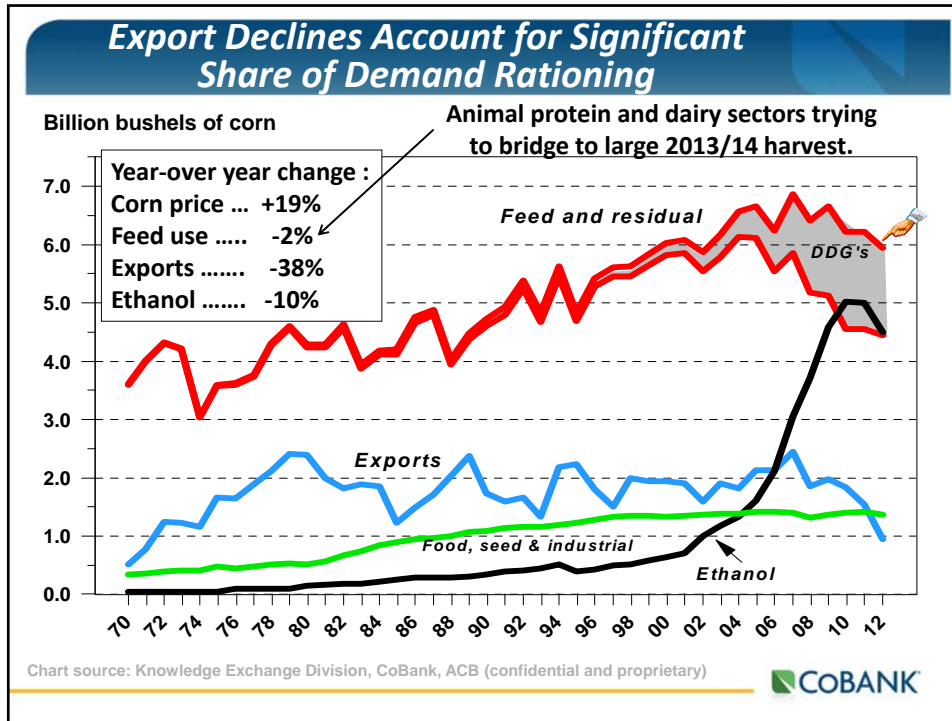


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Large Acreage Suggest Significant Stock Rebuilding in 2013 If Mother Nature Cooperates

	Acreage planted and harvested				
	(million acres)				
	95	96	97	98	99
	87	88	89	90	91
Yield (bu./acre)	Production (million bushels)				
140	12180	12320	12460	12600	12740
145	12615	12760	12905	13050	13195
150	13050	13200	13350	13500	13650
155	13485	13640	13795	13950	14105
160	13920	14080	14240	14400	14560
165	14355	14520	14685	14850	15015

* acreage yield combinations that will result in at least a 1.3 bil. bushel carryover in 2013/14 and 1.5 bil. bushel increase in usage over 2012/13.



U.S. Corn Stocks Will Rebound If Corn Yields Reach Trend Indicators

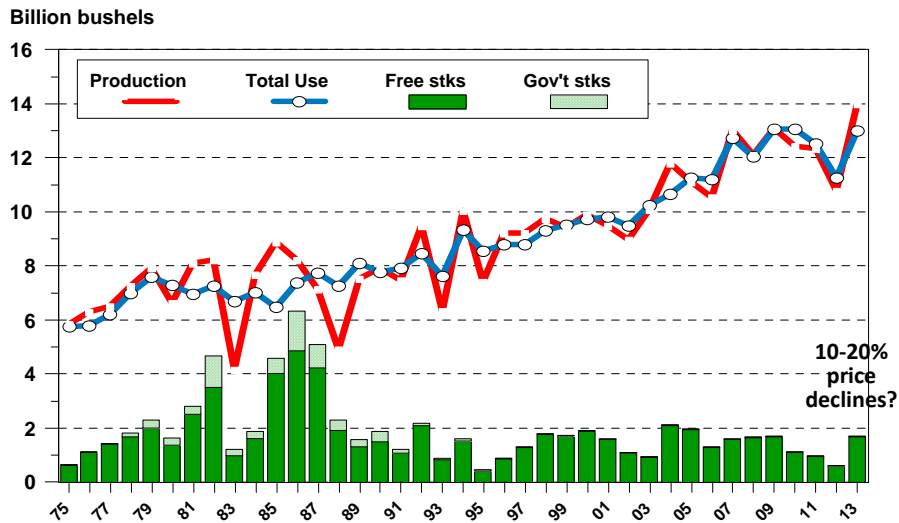


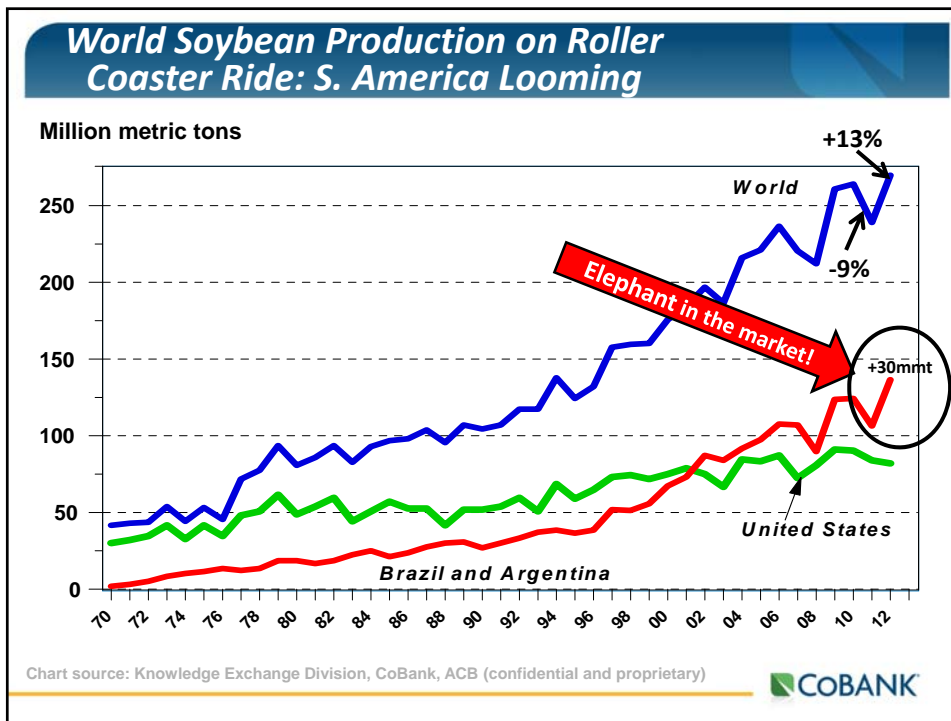
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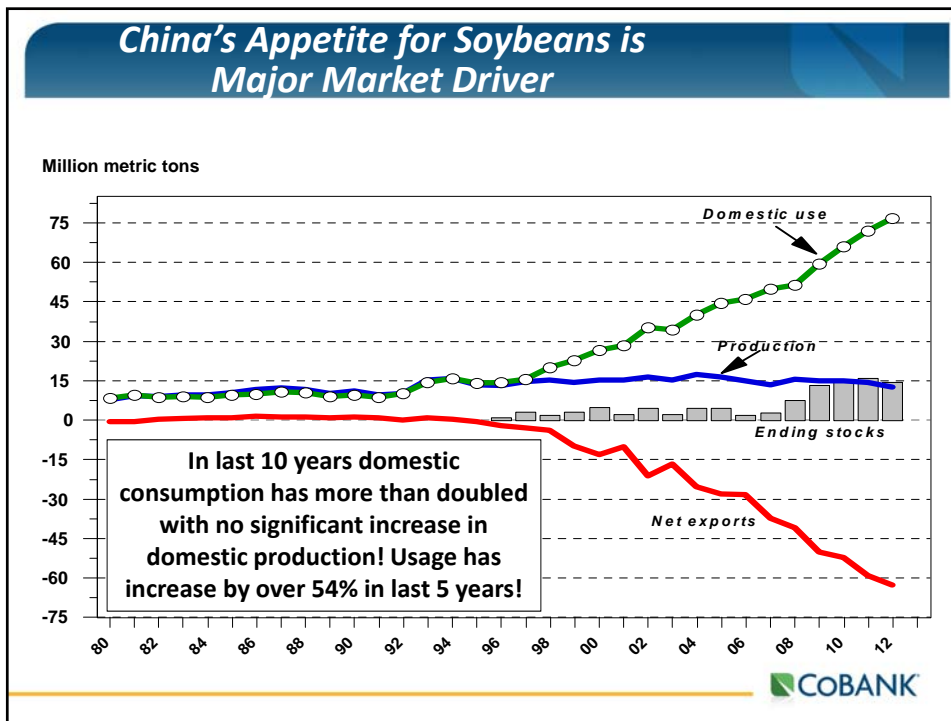
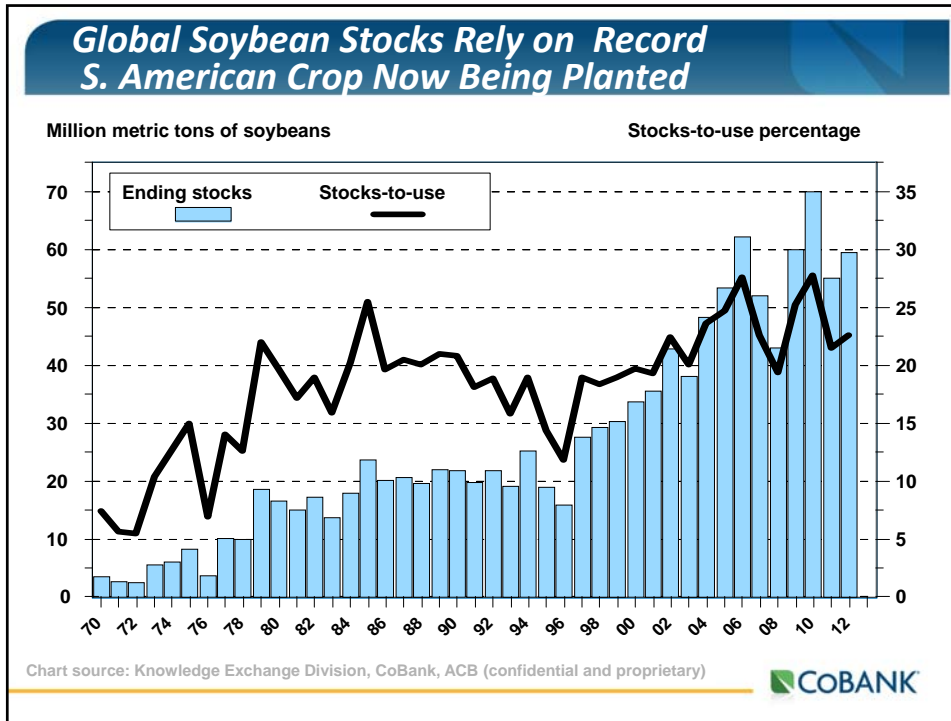


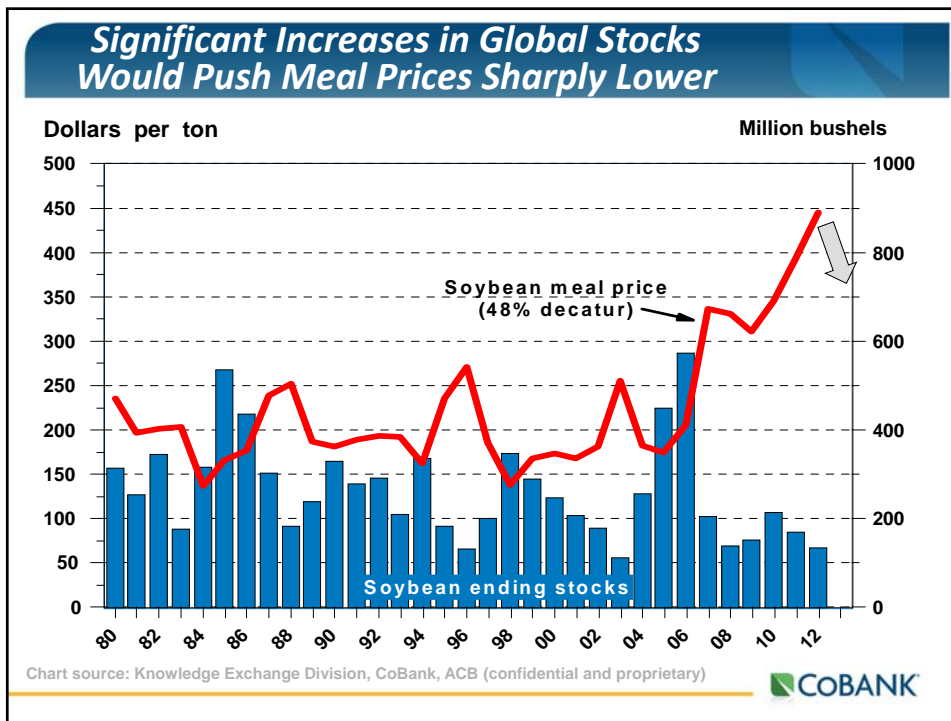
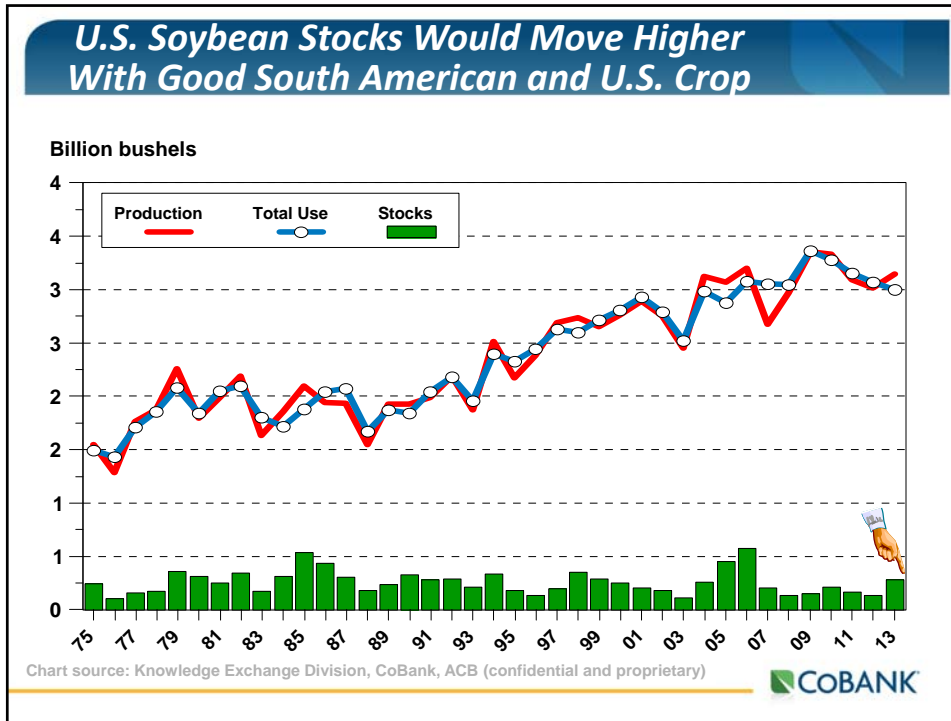
Soybean Market Riding Smaller South American Crop and U.S. Crop Concerns



Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





Protein and Dairy Sectors Realigning and Trying to Bridge to 2013/14 Crops

Feed Costs:


- Low stocks
- Rising price volatility
- Yield/weather issues
- Ethanol

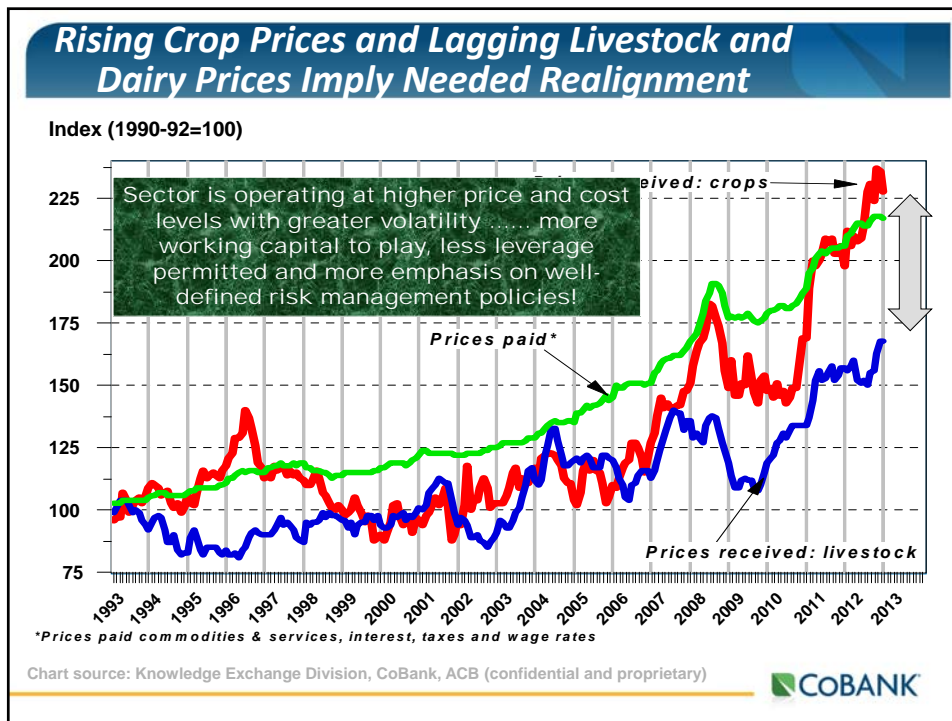


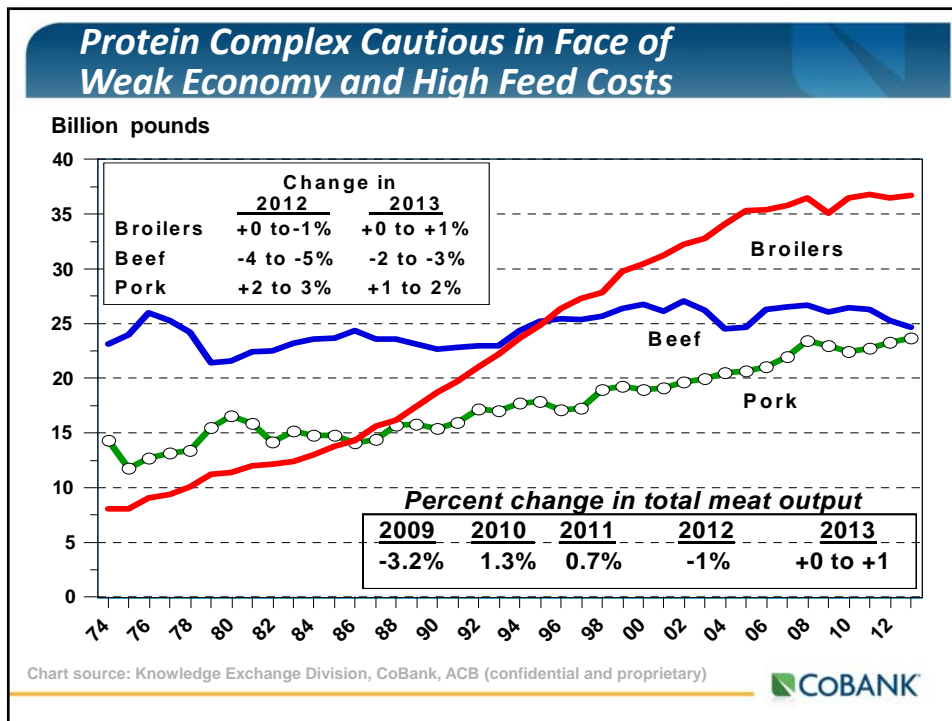
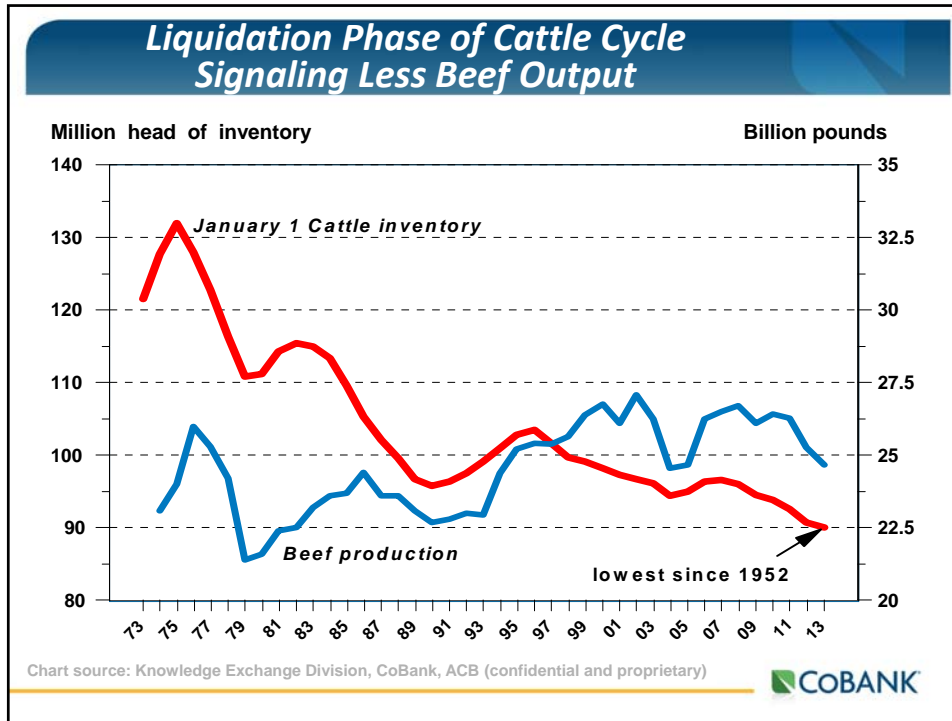
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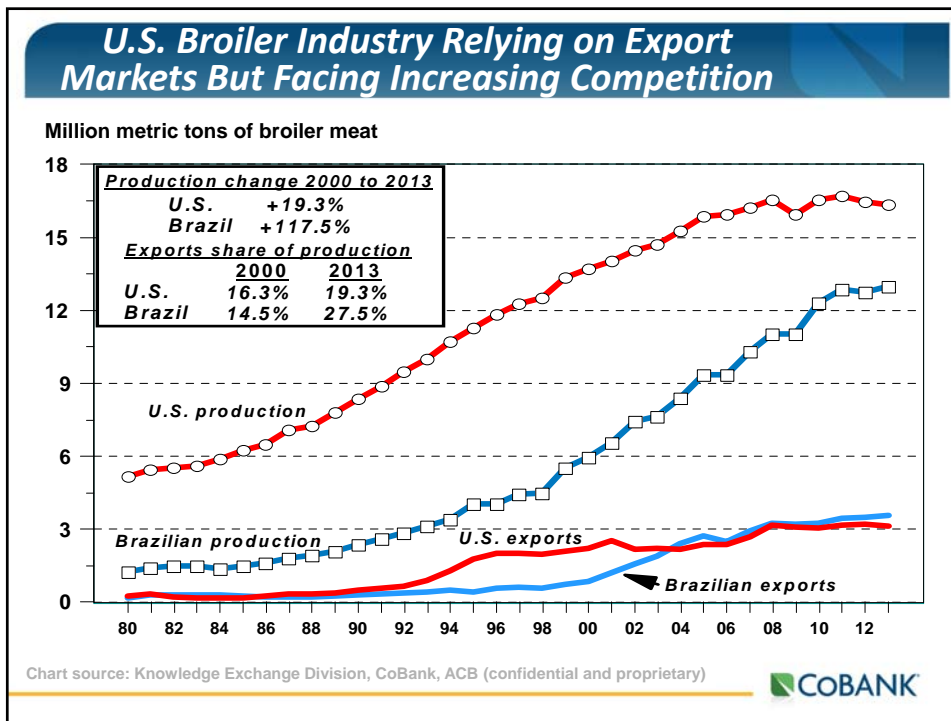
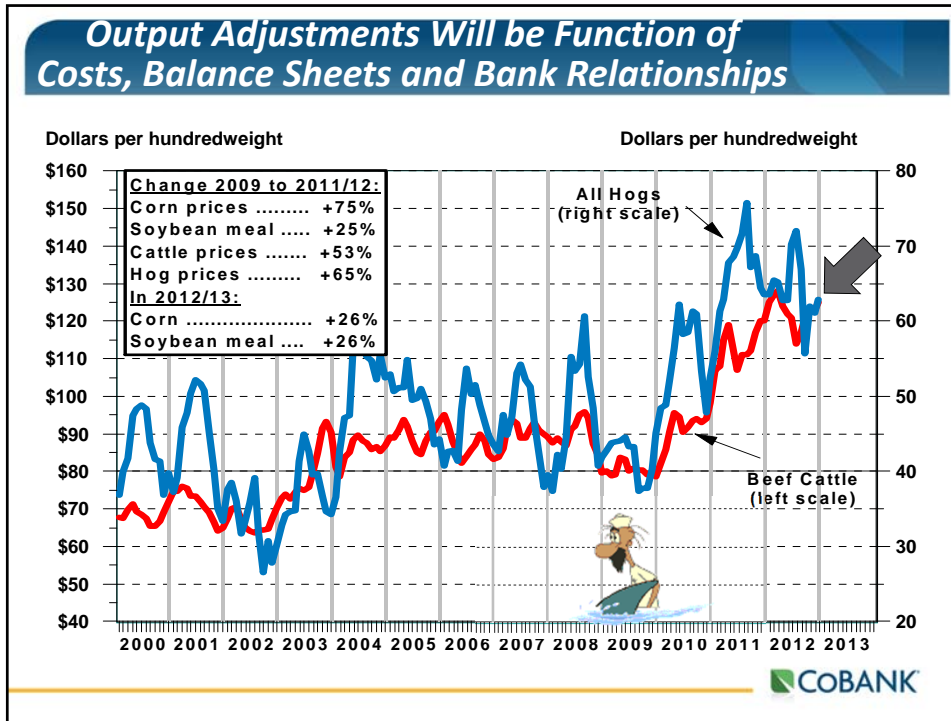
- Emerging markets
- Disease (FMD)
- U.S. \$ rebound
- Rising competition
- Trade disputes

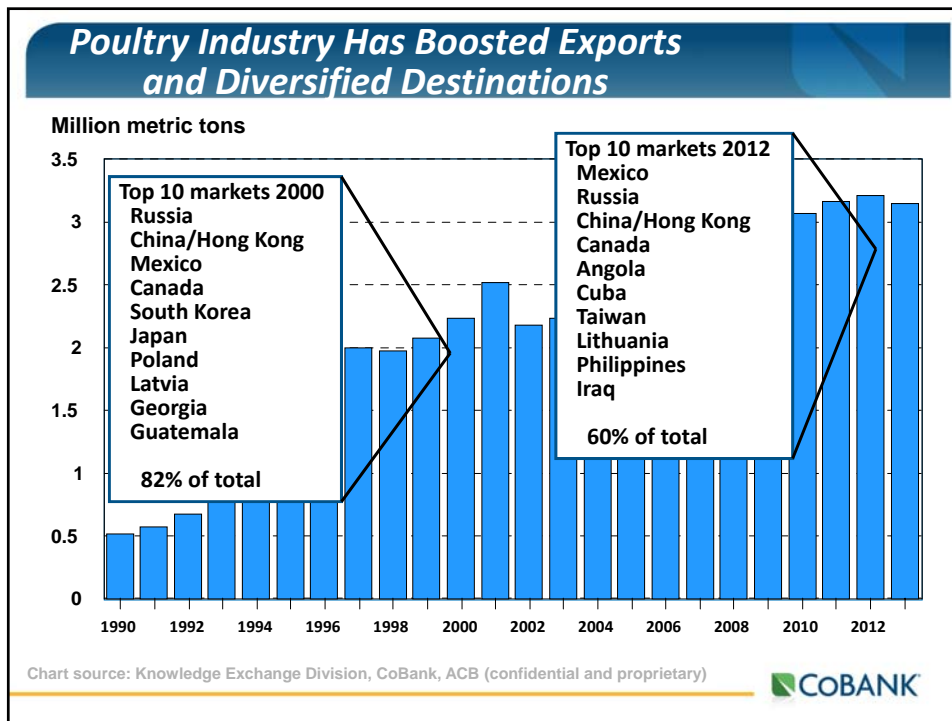
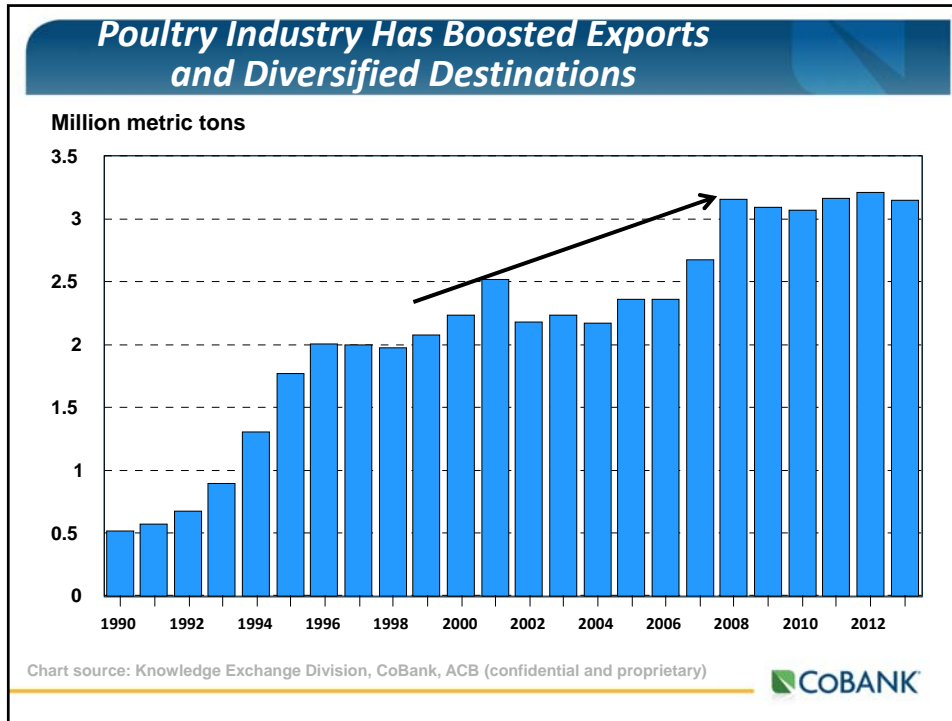
**Are balance Sheets Strong Enough?
 (Hope is not a strategy for feed costs!)**

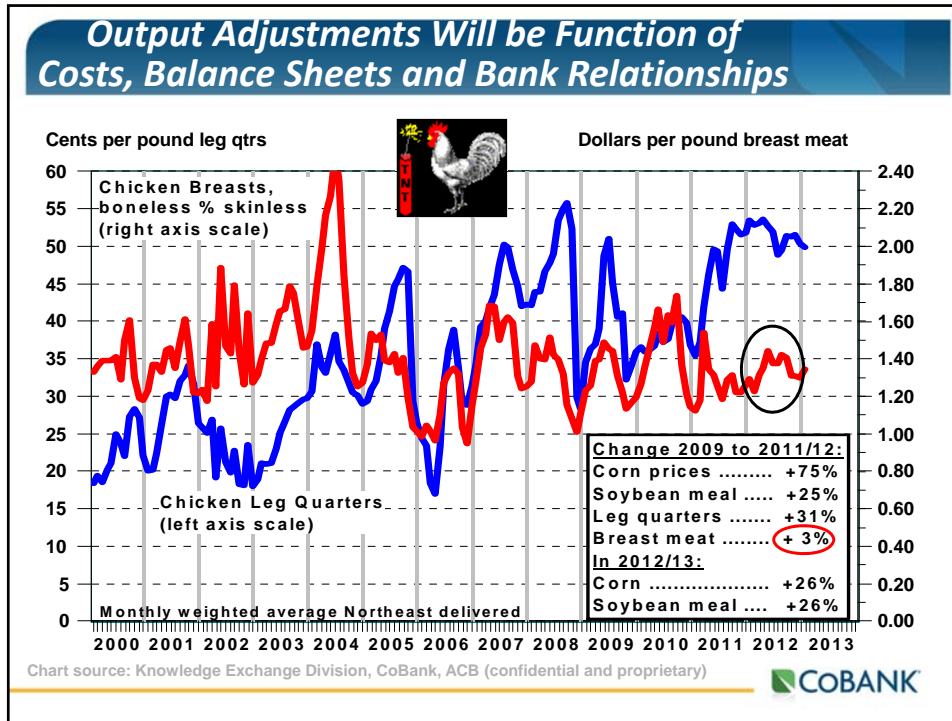












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