



Agriculture & Politics
Washington & Global Issues... Connecting the Dots

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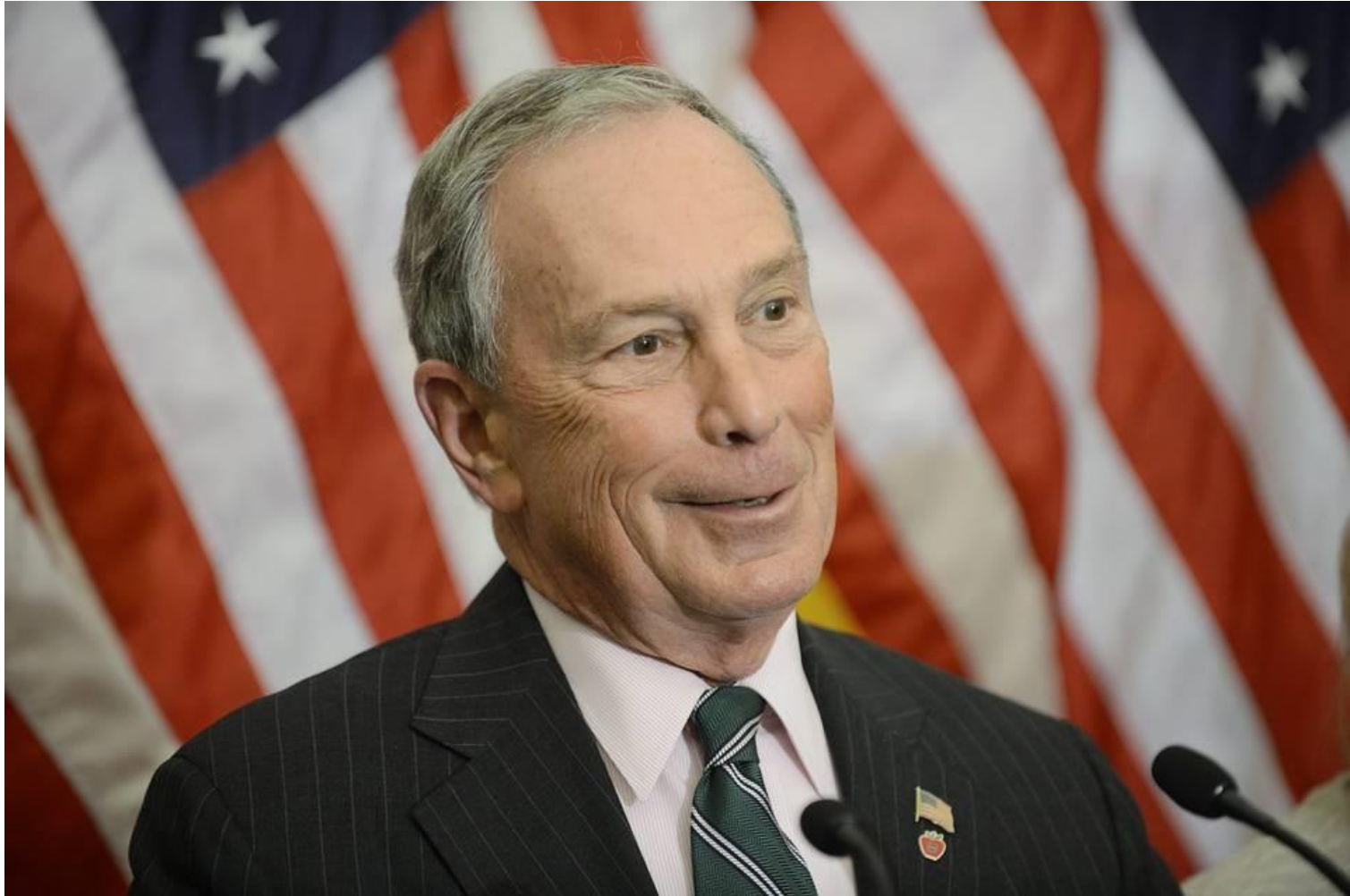
The Great Paradox of 2016...



Who Isn't Running for President?



Now... another possible candidate...



Nation's Pro-Change Mood Argues for a **Republican** President



But Today's GOP is Flirting With Self Destruction



Donald Trump Focus



Donald Trump Focus



IOWA RESULTS

- ✓ **Democrats:** Hillary Clinton ekes out win vs Sanders
- ✓ **GOP:** Cruz 28%, Trump 24%, Rubio 23%
- ✓ **Corn/ethanol lost:** What it means in Washington
- ✓ **Feb. 9, New Hampshire:** Trump clout may dim
- ✓ **Sanders heavy favorite in N.H.:** But it won't continue
- ✓ **Polls:** Have not been accurate

OUTLOOK: ELECTIONS

- ✓ **Democrats:** Hillary Clinton will be the candidate, if...
- ✓ **GOP:** Take your pick: Trump, Cruz, or Rubio
- ✓ **How would candidate act as president?**
- ✓ **Who is going to actually vote?**
- ✓ **Senate elections**
- ✓ **Supreme Court openings**
- ✓ **House:** Not many competitive seats

Really Hard to Win a Third Term... 'Time for Change' Beats 'Stay the Course'



- ❖ **Historical odds are against Hillary:** No Democrat has succeeded a two-term Democratic president since 1836.
- ❖ **For Republicans,** 1988 was the first three-term run since 1904.

Dems' Socialist...



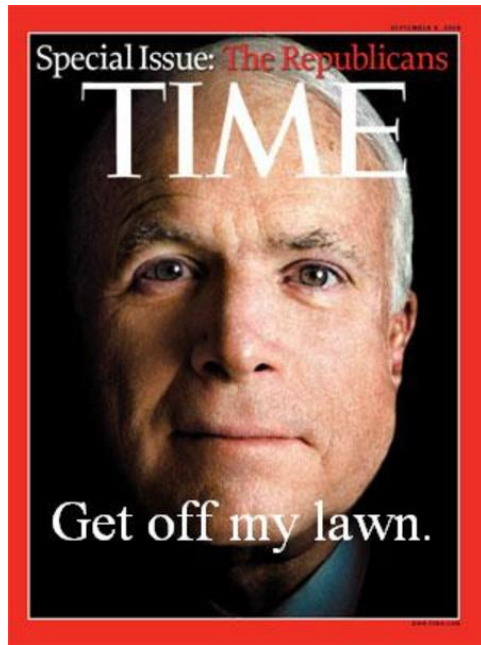
- ❖ **Prediction: Bernie Sanders will NOT be the Democratic nominee**
- ❖ **But, he's already forced Hillary Clinton further left than she'd like to be on TPP, etc.**

**Bottom Line: 'Experts' Say GOP Headed
for All-Cuban Final Between Rubio & Cruz**



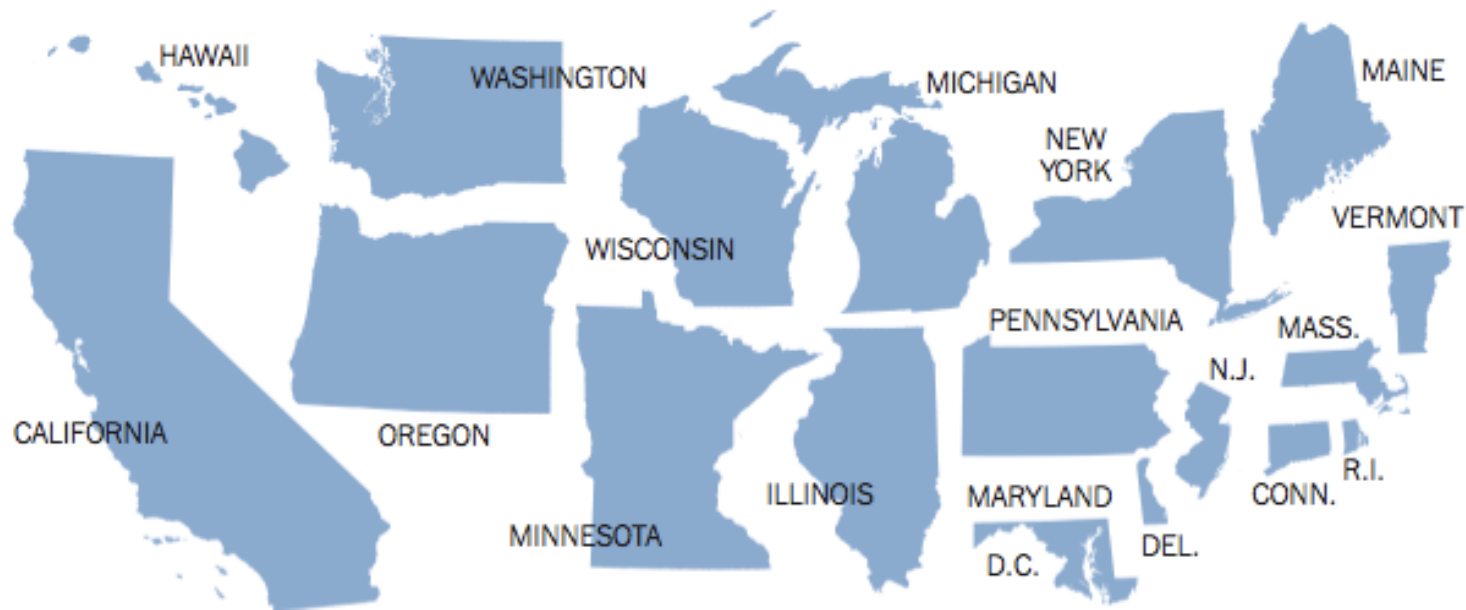
- ❖ **Little doubt Hillary camp fears Rubio the most, but can he win the nomination?...If not, GOP headed for Goldwater redux**

A Secret Built-in Structural Advantage for Moderate GOP Candidates



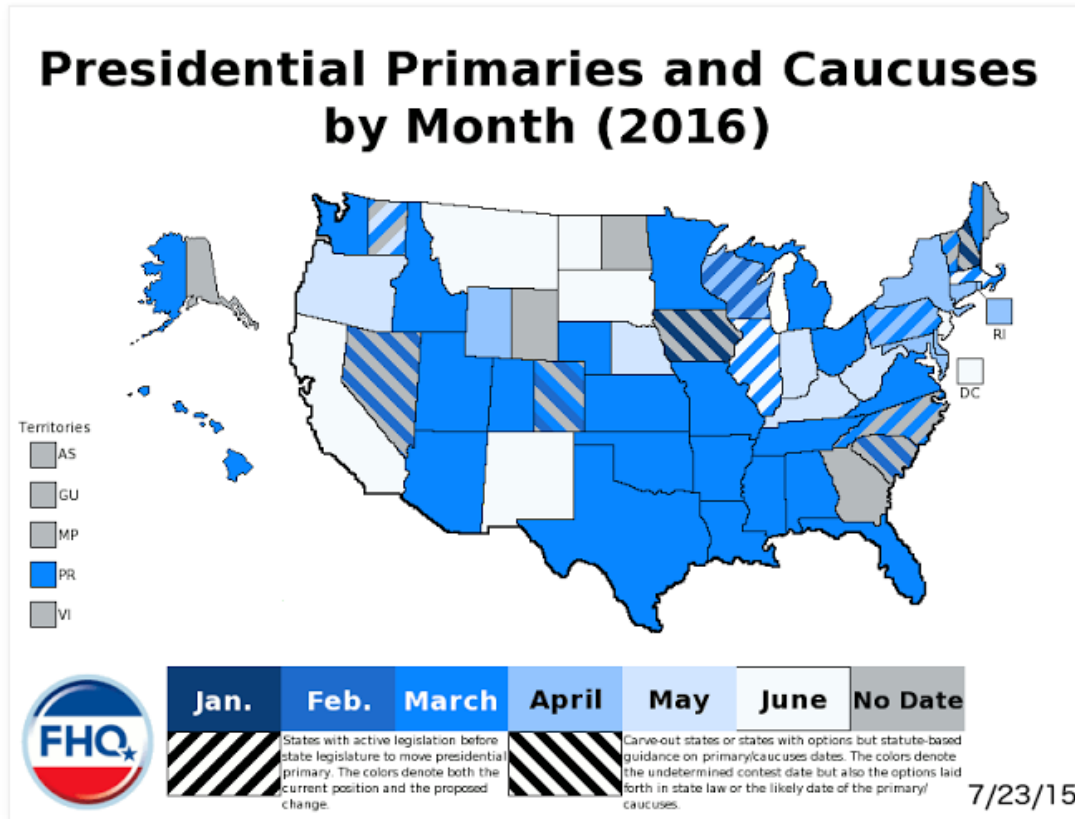
- ❖ There's a reason the GOP has continued to nominate moderates like McCain & Romney while the party has veered right in Congress: Blue State **Republicans**

Republicans in Blue States Hold Surprising Sway Over GOP Nominations



- ❖ Just 20% of **GOP Senators** & 11% of **GOP House members** come from blue states/districts because of general elections
- ❖ But, a majority of the 2,472 delegates are in Blue States

Calendar: GOP Race Will Be Decided in March



- ❖ SEC Primary, March 1st: AL, AR, GA, OK, TN, TX, VA
- ❖ March 15th: Florida, Ohio, Texas, Illinois, North Carolina, Missouri

Brokered Cleveland Convention?

What the experts say



- ❖ **After March 15th, 64% of delegates will have already been decided in primaries/caucuses and it's likely all but 2 of the candidates will be mathematically eliminated from contention**

Three Most Critical States of 2016...

1) Florida

- ❖ Huge winner-take-all GOP primary on March 15th, competitive presidential & Senate races in November

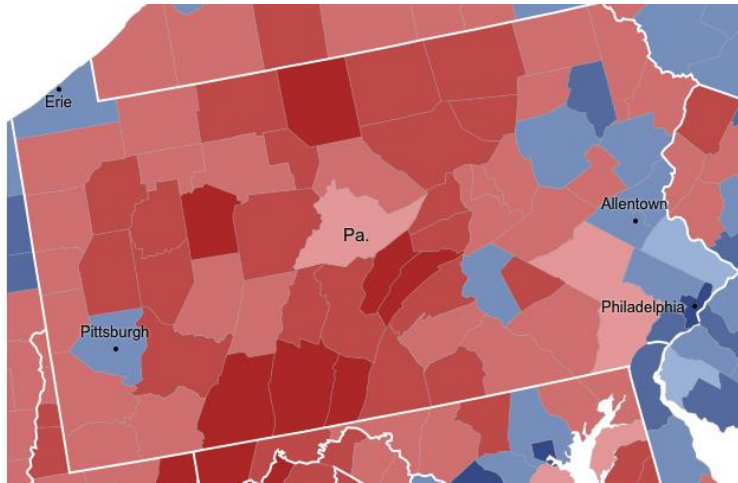


2) Ohio

- ❖ Winner take all **GOP** primary March 15th, must-win state for GOP in November & **Rob Portman (R)** up for reelection



3: 'Keystone' of the Electoral College?



- ❖ **Western PA shifting more Republican**
- ❖ **Competitive Senate race: Sen. Pat Toomey (R)**



2016 Bellwether? On Election Night, Watch...



2012: Obama 19,712 Romney 19,369

OUTLOOK: SUGAR POLICY

- ✓ **US-Mexico trade suspension agreement: Victory**
- ✓ **Farm bill victories: Several amendments defeated**
- ✓ **HFCS legal case: Settled**
- ✓ **TPP: Worked w/USTR to get accord you could live with**
- ✓ **GMO issues: Not going to go away**
- ✓ **Food labeling: Added sugars**
- ✓ **The next farm bill...**

OUTLOOK: NEXT FARM BILL

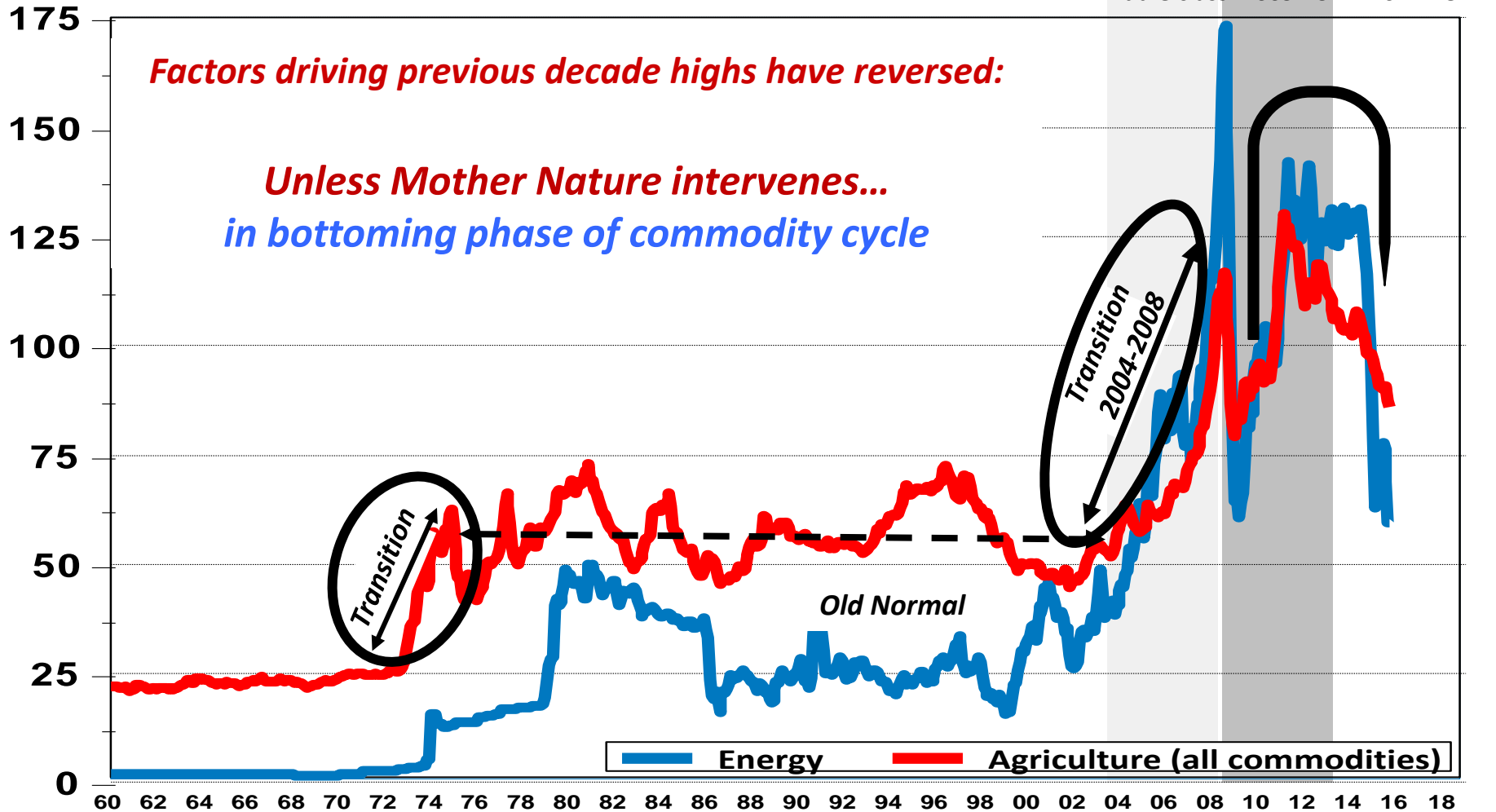
- ✓ **Timing:** New Congress, new president
- ✓ **FB extension likely:** At least short term
- ✓ **Key players:** President, House & Senate Ag panels
- ✓ **Farm bills never easy:** Look at the past...
 - ✓ 1996... extension and then deal with NE dairy
 - ✓ 2002... veto threat until Combest pulled support for TPA
 - ✓ 2008... vetoed twice, overridden twice
 - ✓ 2014... took four years, including initial extension

Farm Program Update

- ✓ 1.7 mil. elected ARC/PLC, more than DCP
- ✓ Oct. payments (\$4 bil.) for 2014 crops
- ✓ Cotton STAX
- ✓ Crop insurance

Commodity Market Realignments Still Underway in Uneasy Global Marketplace

Indexes (2010=100)



Data source: World bank

Economy

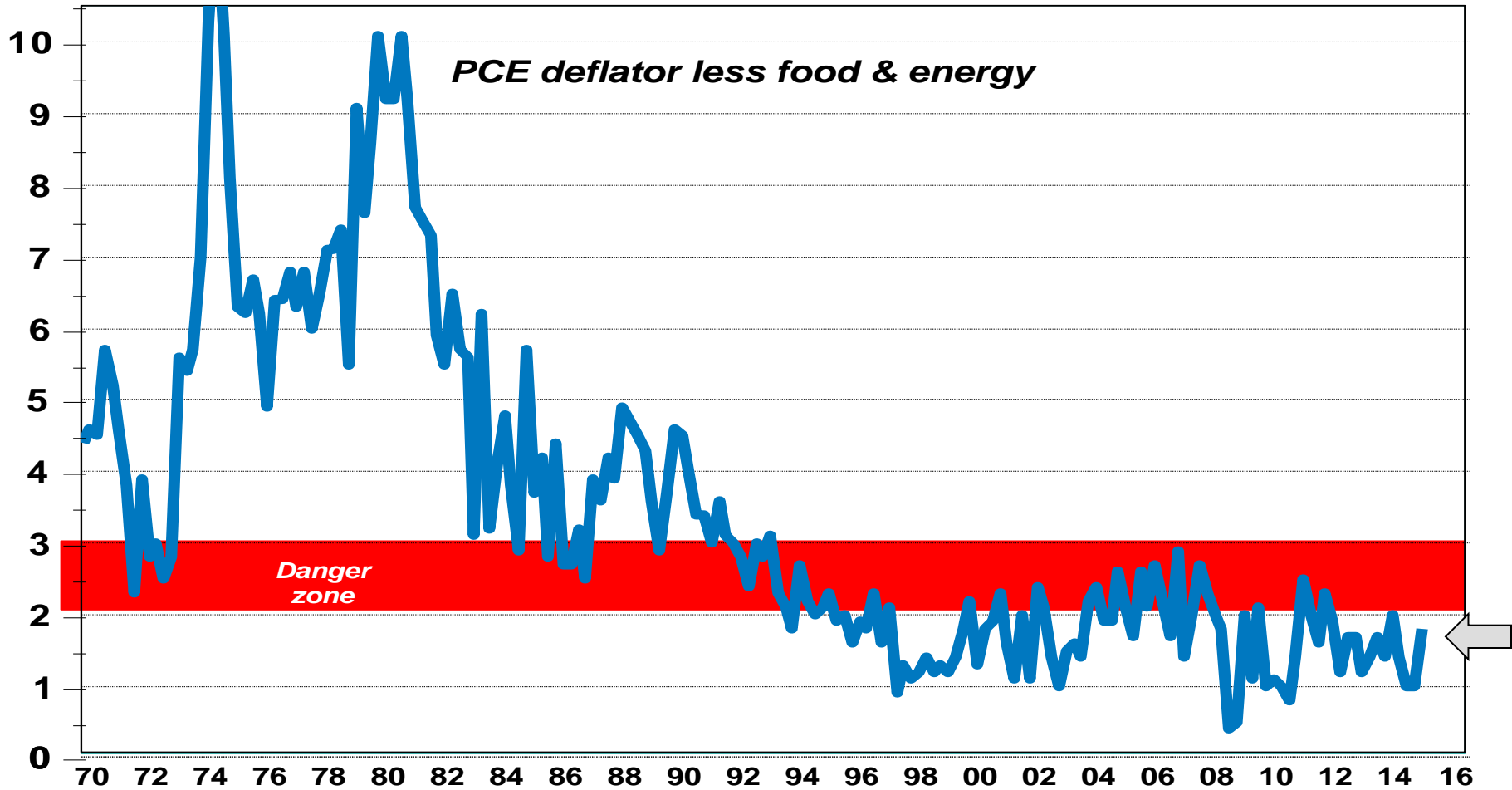
- **GDP... growth rate, recession, deflation**
 - U.S.
 - China
 - Japan
 - EU
 - **Emerging markets**
- **Currency issues**
- **Deficits and debt**

OUTLOOK: U.S. ECONOMY

- ✓ **Tepid GDP... stock markets in corrective phase**
- ✓ **Housing up 6.1% | Consumer spending up 3.2%**
- ✓ **Inventories | weak exports**
- ✓ **Lower gas prices... some help for consumers**

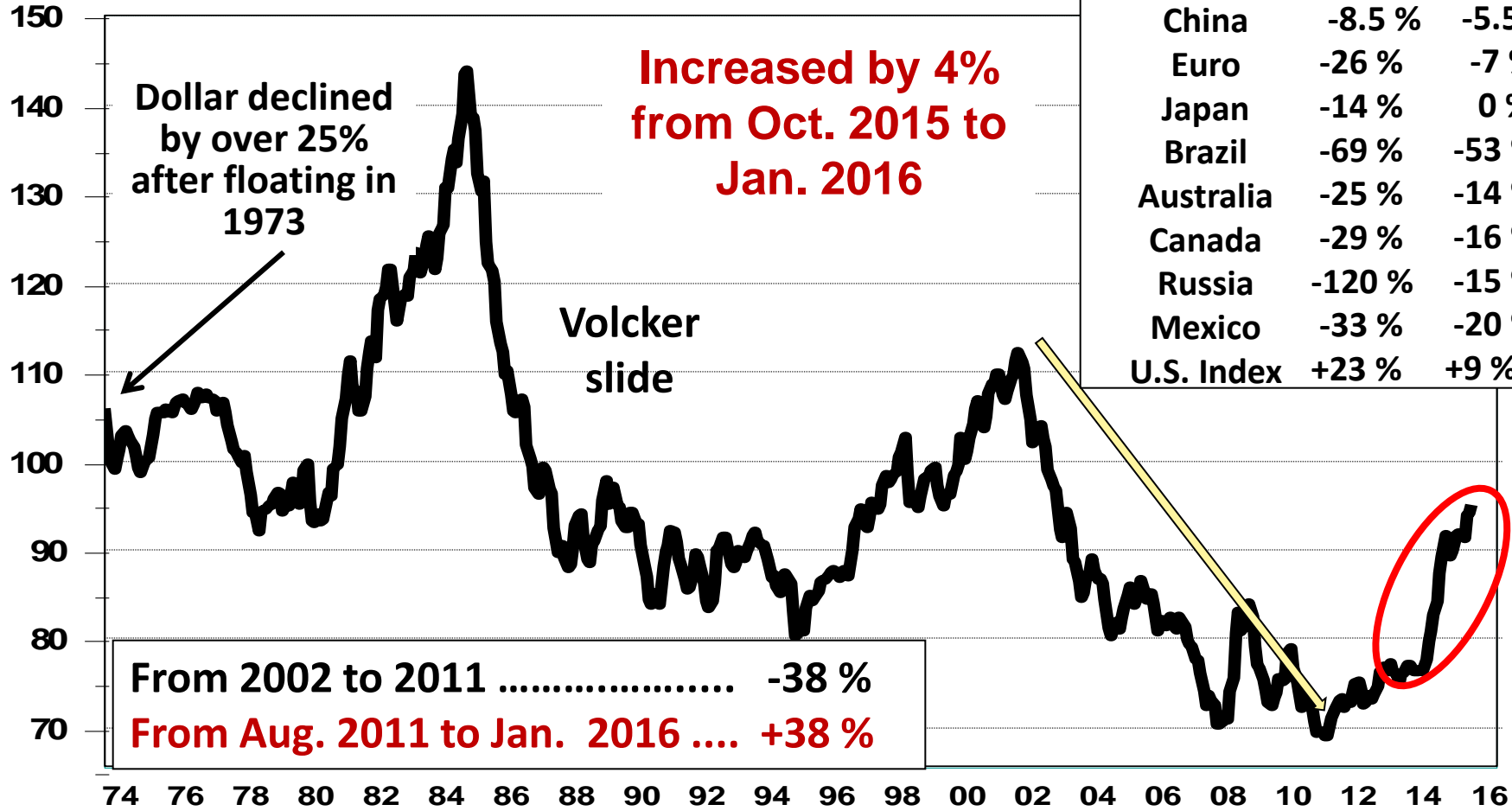
Core U.S. Inflation Remains Benign and Well Under Target Levels But Increasing

Percent change from previous quarter (seasonally adjusted annual rate)



U.S. Dollar Remains Strong Against Broad Range of Currencies

Indexes of major currencies/US\$ (March 1973=100)



Currency to US dollar:	Change from 2013	2014
China	-8.5 %	-5.5 %
Euro	-26 %	-7 %
Japan	-14 %	0 %
Brazil	-69 %	-53 %
Australia	-25 %	-14 %
Canada	-29 %	-16 %
Russia	-120 %	-15 %
Mexico	-33 %	-20 %
U.S. Index	+23 %	+9 %

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

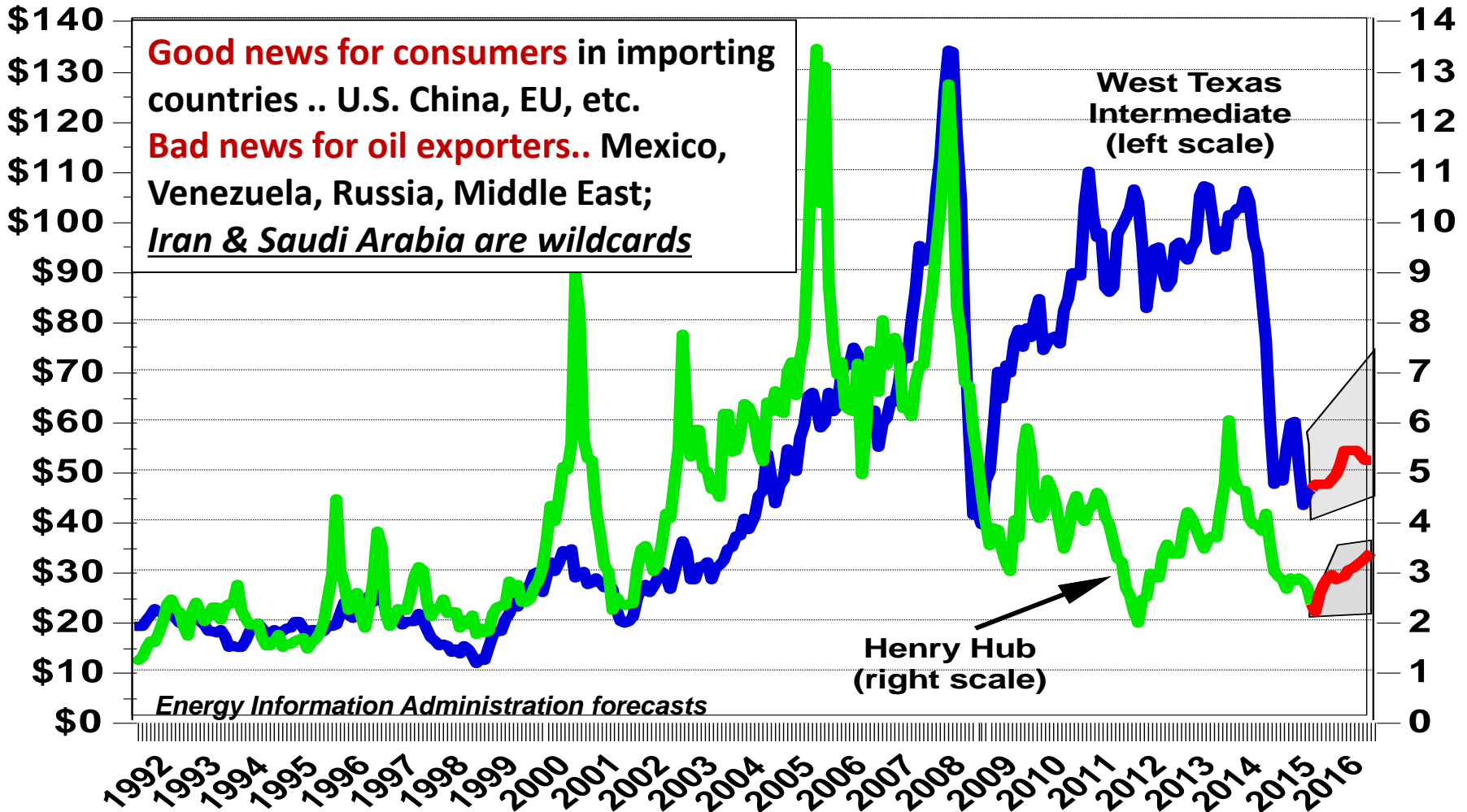
OUTLOOK: DOLLAR

- ✓ **Up 17%** since mid-July 2014
- ✓ **Will rise 5% to 7% more** by end of 2016
- ✓ Central banks in Europe, Japan, China **lowering** rates
- ✓ Stronger dollar impacting **U.S. trade, GDP**
- ✓ **Eventual pressure** from federal budget, trade deficit

Energy Sector Negative for Investment But A Stimulus for Consumption in 2016

Dollars per barrel

Dollars per million Btu

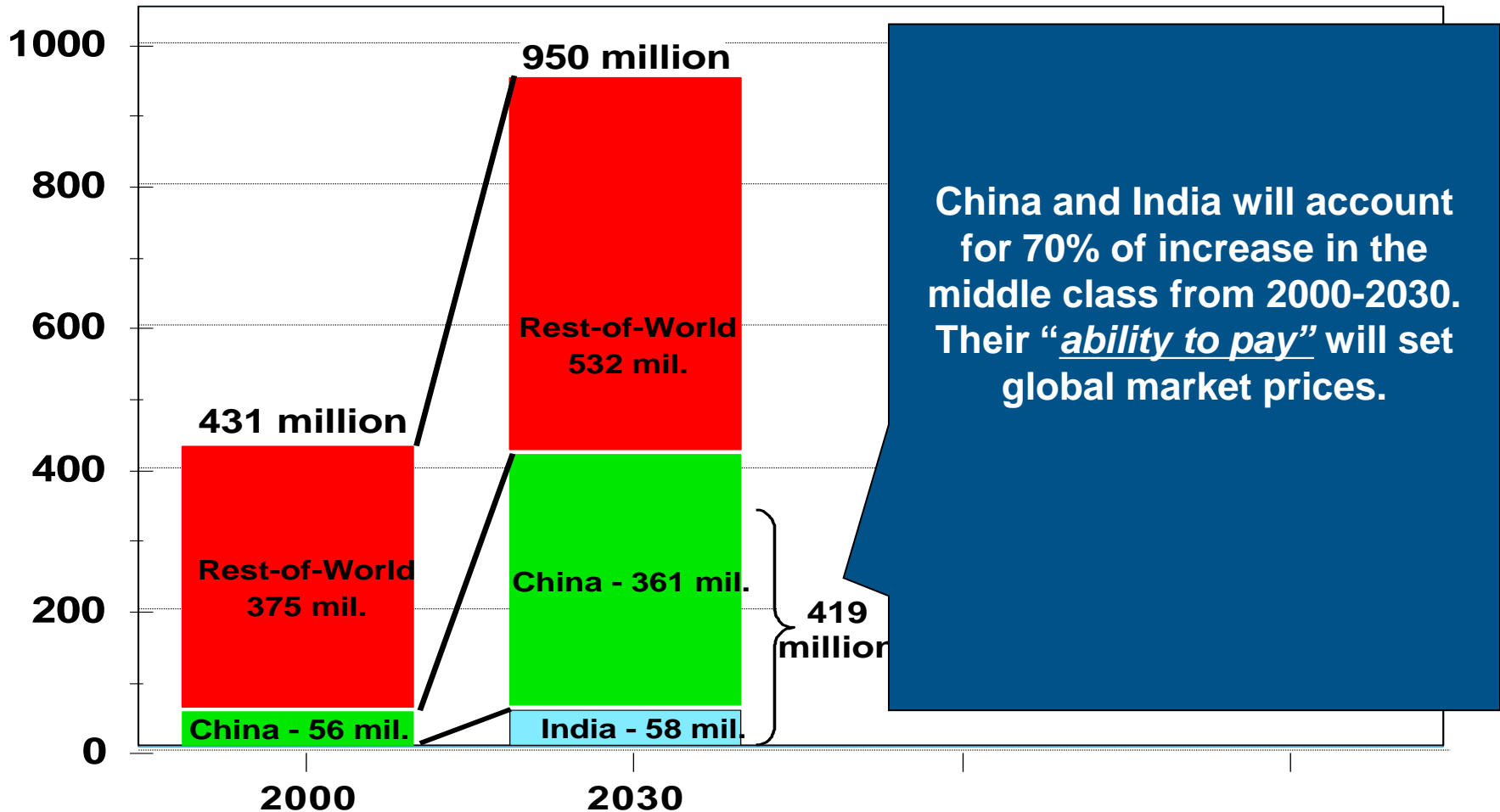


OUTLOOK: ENERGY

- ✓ **Oil prices now \$31...** Iranian oil back on market
- ✓ **Supply cuts** will eventually ease downward pressure
- ✓ **Geopolitics:** Watch Saudi Arabia
- ✓ **Natural gas:** No big rise if weather forecasts tepid
- ✓ **Ethanol/RFS:** No major changes, but lots of attempts

A Resource Challenged World Will Continue to Support Commodity Markets in the Future

Million people



Washington Agenda

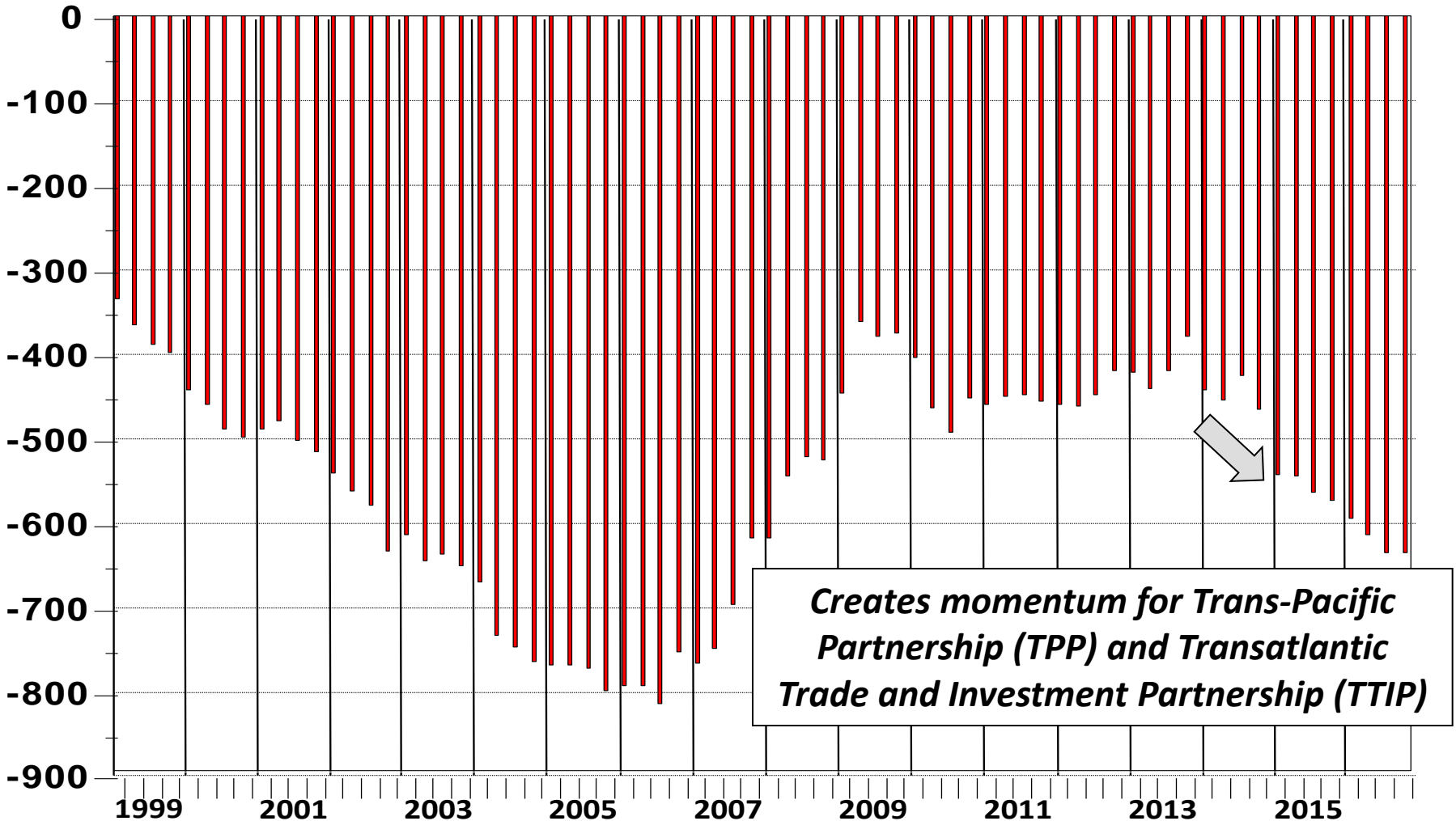
- ❖ **Package:** Debt limit hike, 2-year spending package agreed
- ❖ **Spending bill and tax extender details agreed**
 - ❖ Permanent extension for equipment expensing
 - ❖ Bonus depreciation: 50% for property placed in service during 2015, 2016 and 2017 and phases down, with 40% in 2018, and 30% in 2019
 - ❖ Biodiesel incentive extended through 2016

Washington Agenda

- ❖ **Surface transportation** 5-year funding signed into law
- ❖ **Crop insurance** cut repeal included
- ❖ **Fed policy** – Interest rate hike announced Dec. 16

Growing Trade Deficit Will Partially Offset Stimulus From Oil Price Declines

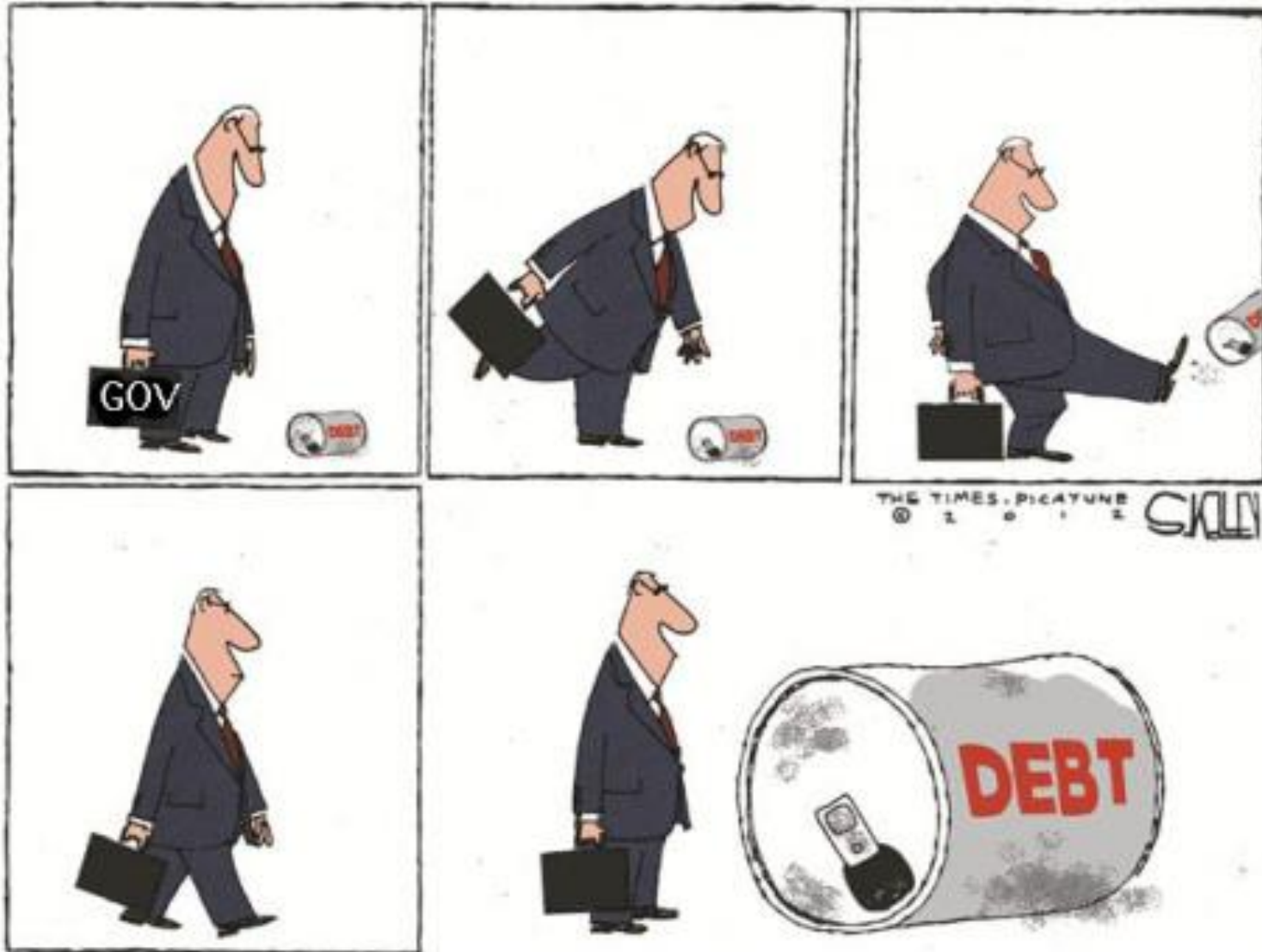
Billions of chained (2009) dollars (seasonally adjusted annual rates)



Trade agenda

- ✓ **TPP, TTIP**
- ✓ **Cuba .. they like N.D. farm products**
- ✓ **COOL**

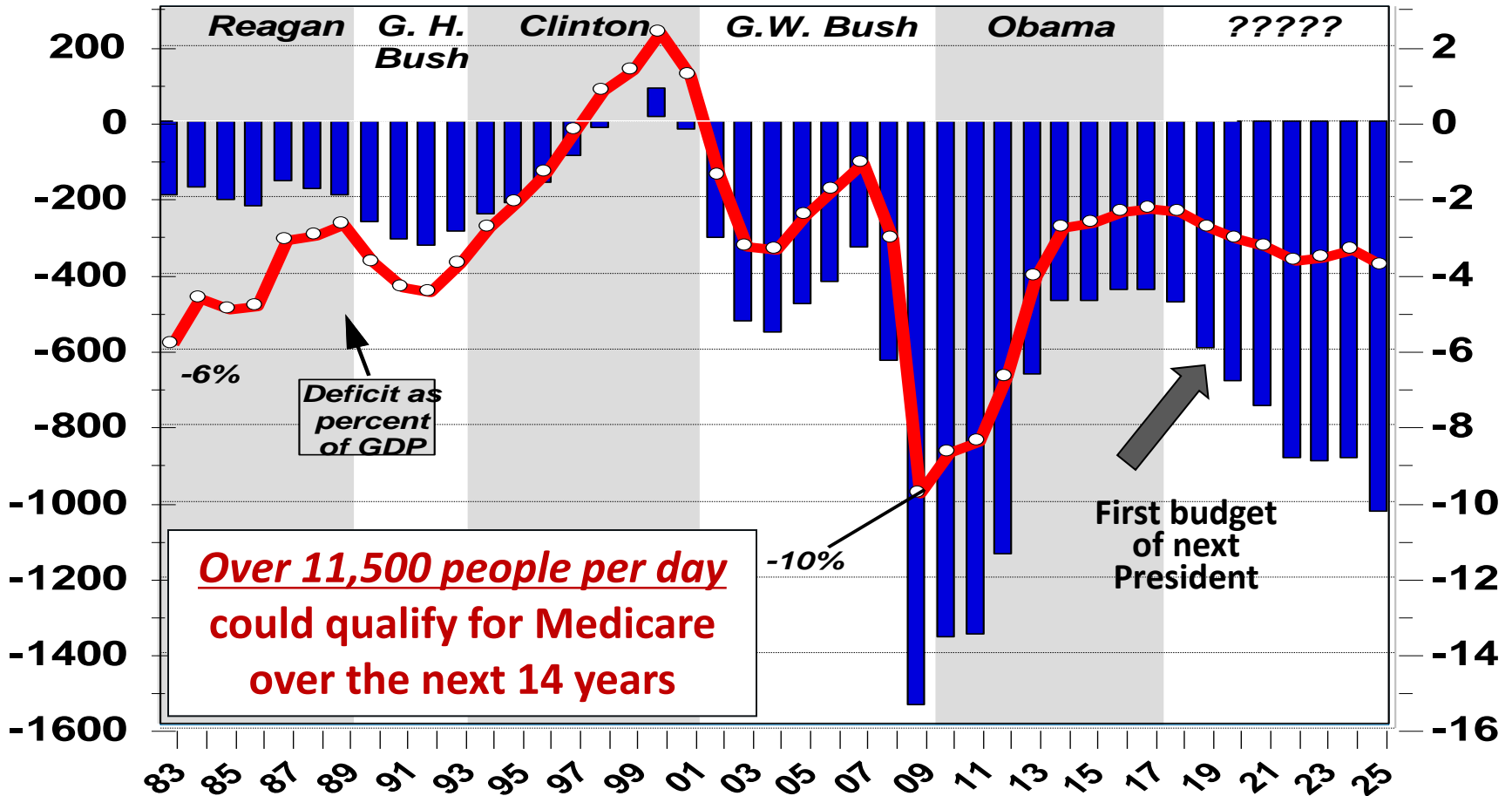
U.S. Deficit, Debt Woes Ahead



Short Term Deficit Relief Means Long Term Revenue and Spending Changes Are Post-2016

Deficit in billion dollars

Percent of GDP

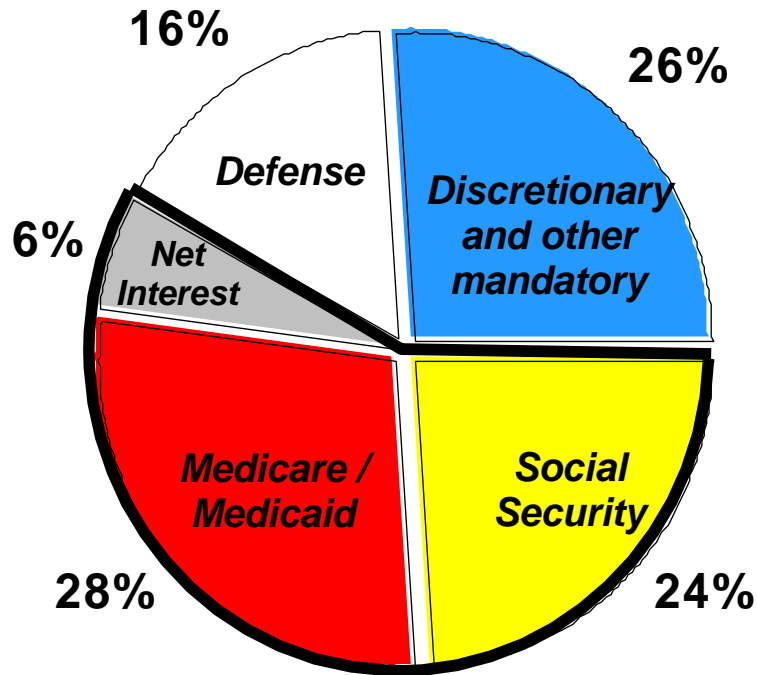


Over 11,500 people per day could qualify for Medicare over the next 14 years

Source: Congressional Budget Office (February 2015), BEA and Treasury Department

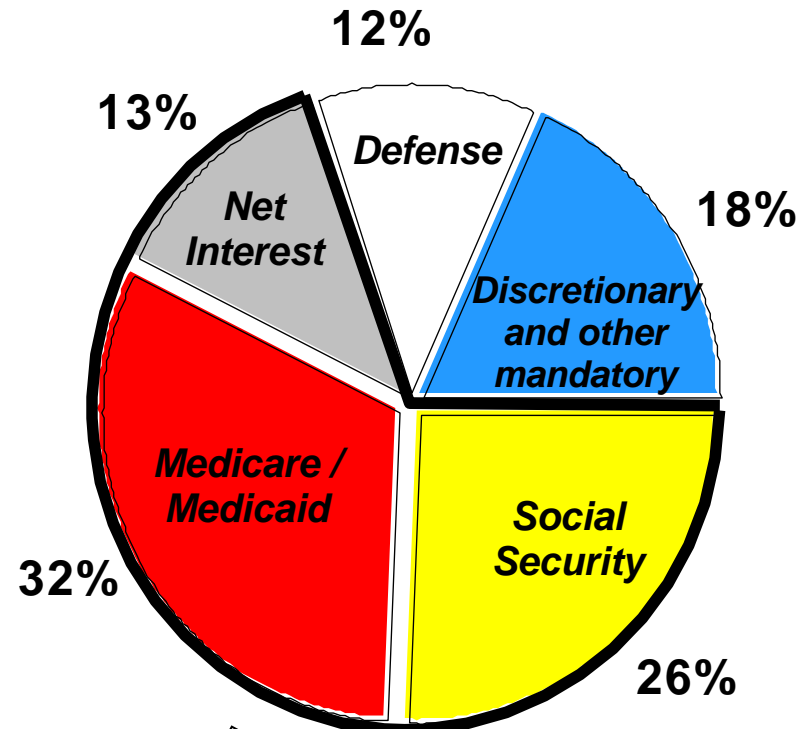
Social Security, Medicare, Medicaid and Net Interest Consuming Larger Share of Budget

FY 2015



58% of Spending

FY 2025



70% of Spending

Data source: Congressional Budget Office August 2015

Regulations & Barriers

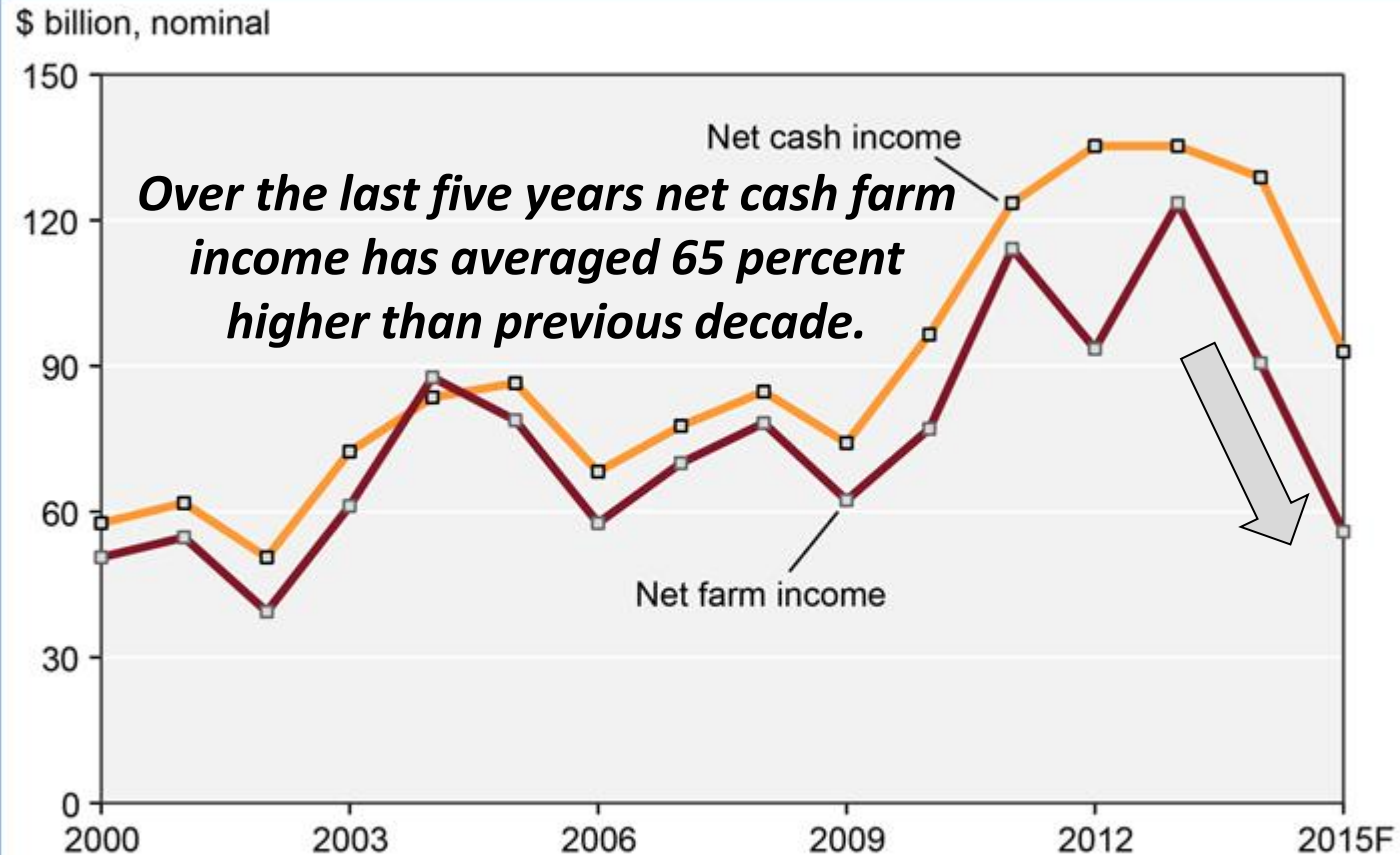
- **Non-tariff trade barriers**
- **GMO bans | GMO food labeling**
- **Waters of the US (WOTUS) – NOT in budget accord**

OUTLOOK: AG

- ✓ **Sugar:** More bulls than bears, tight Brazil situation
- ✓ **Corn:** In balance, reduced volatility, tepid exports
- ✓ **Soybeans:** More downside risk than corn
- ✓ **Wheat:** Watch Russia, Ukraine, Australia
- ✓ **Argentina:** Bigger exports, market impacts ahead
- ✓ **Cotton:** China stocks, generic base acres to other crops
- ✓ **Cattle:** Cycle changes to expansion
- ✓ **Hogs:** More expansion than most think

Farm Income Likely To Be Under Downward Pressure As Commodity Prices Decline Into 2016

Net farm income and net cash farm income, 2000-2015F



Note: F = forecast.

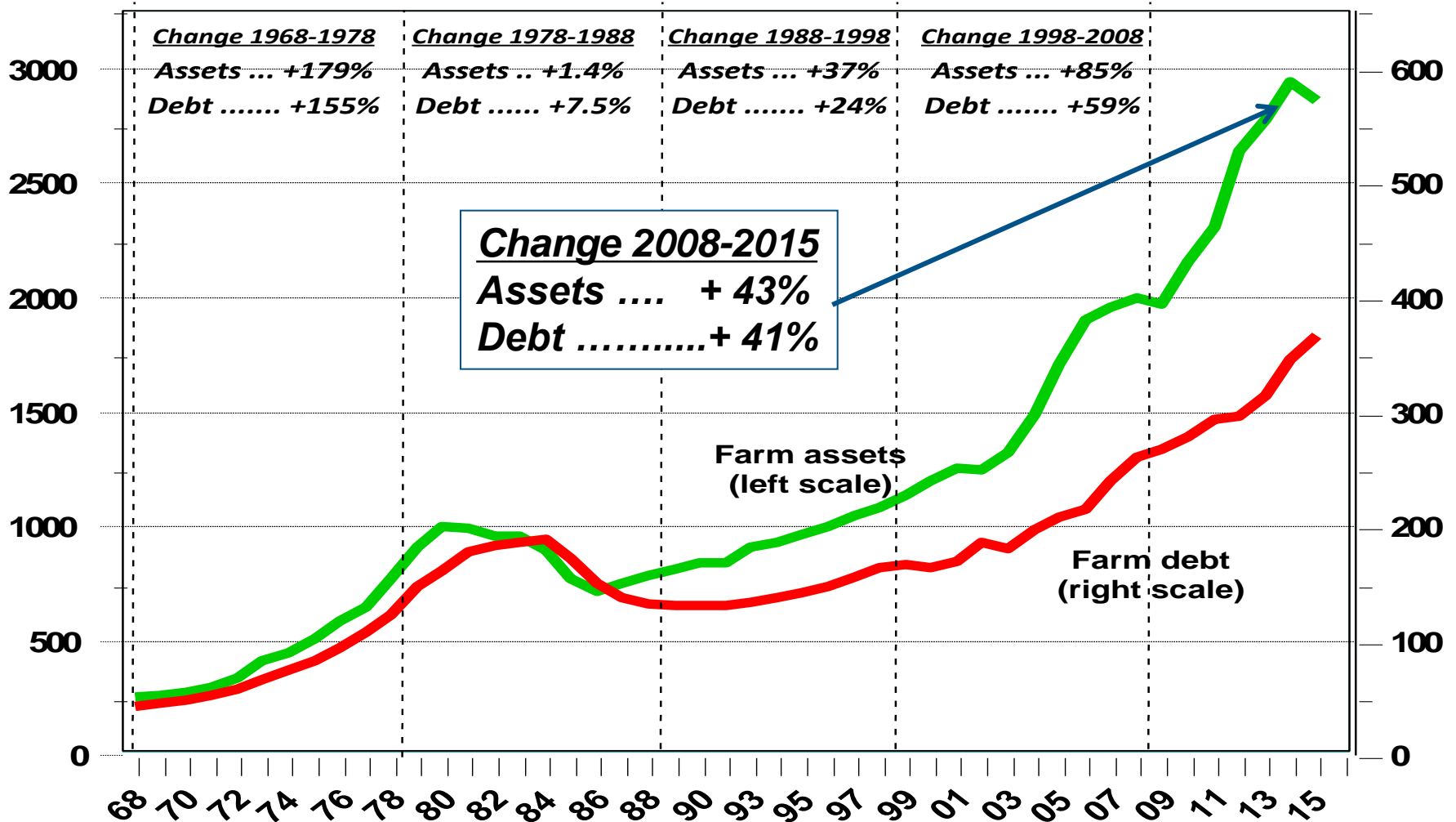
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of November 24, 2015.

Balance Sheet of Agriculture is Better Prepared for Volatility and Transition

Billion dollars

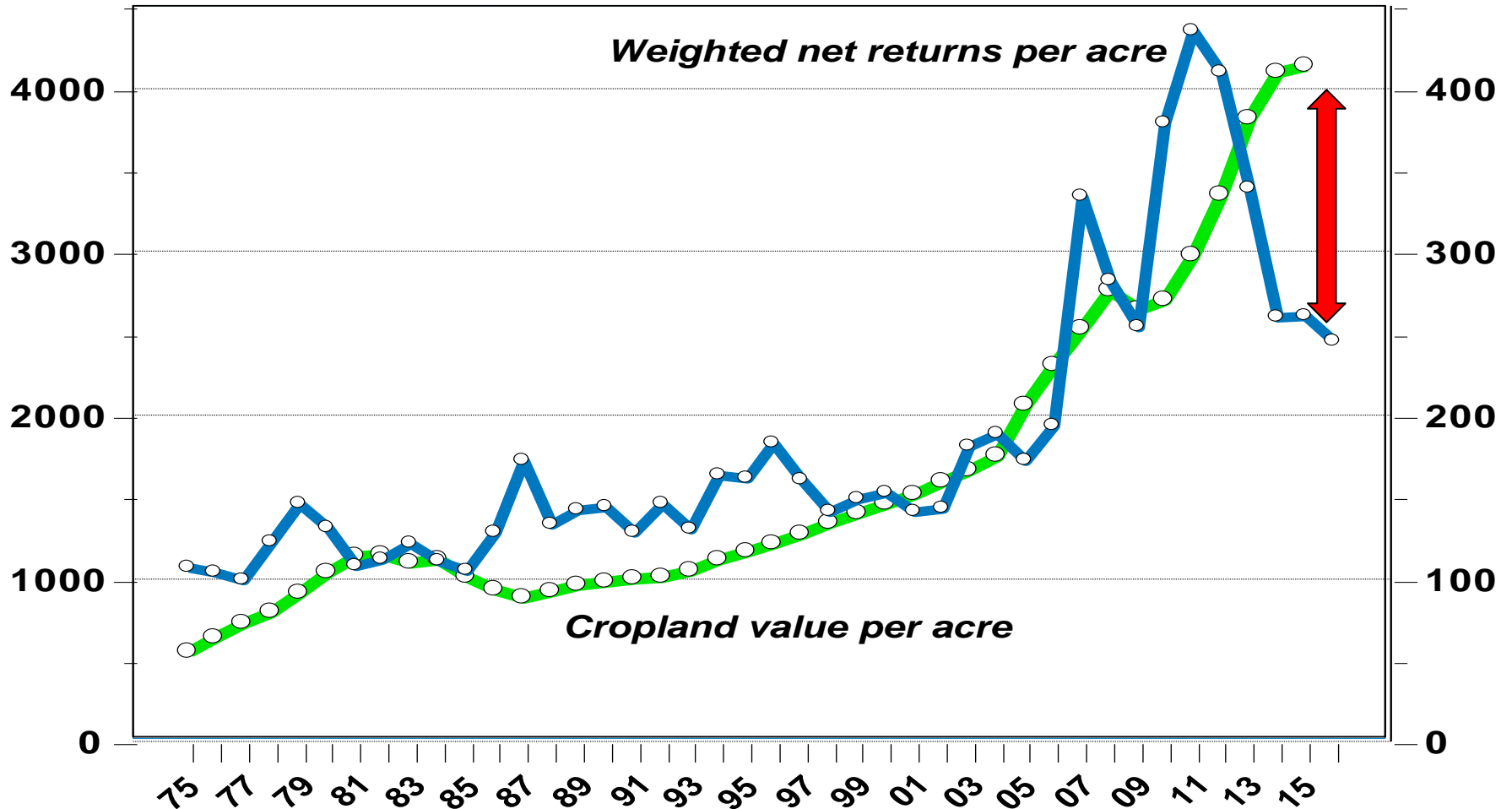
Billion dollars



Sharp Drop in Net Returns Have Domino Effects on Land Values, Rental Rates and Input Prices

Per acre value in dollars

Net returns per acre in dollars

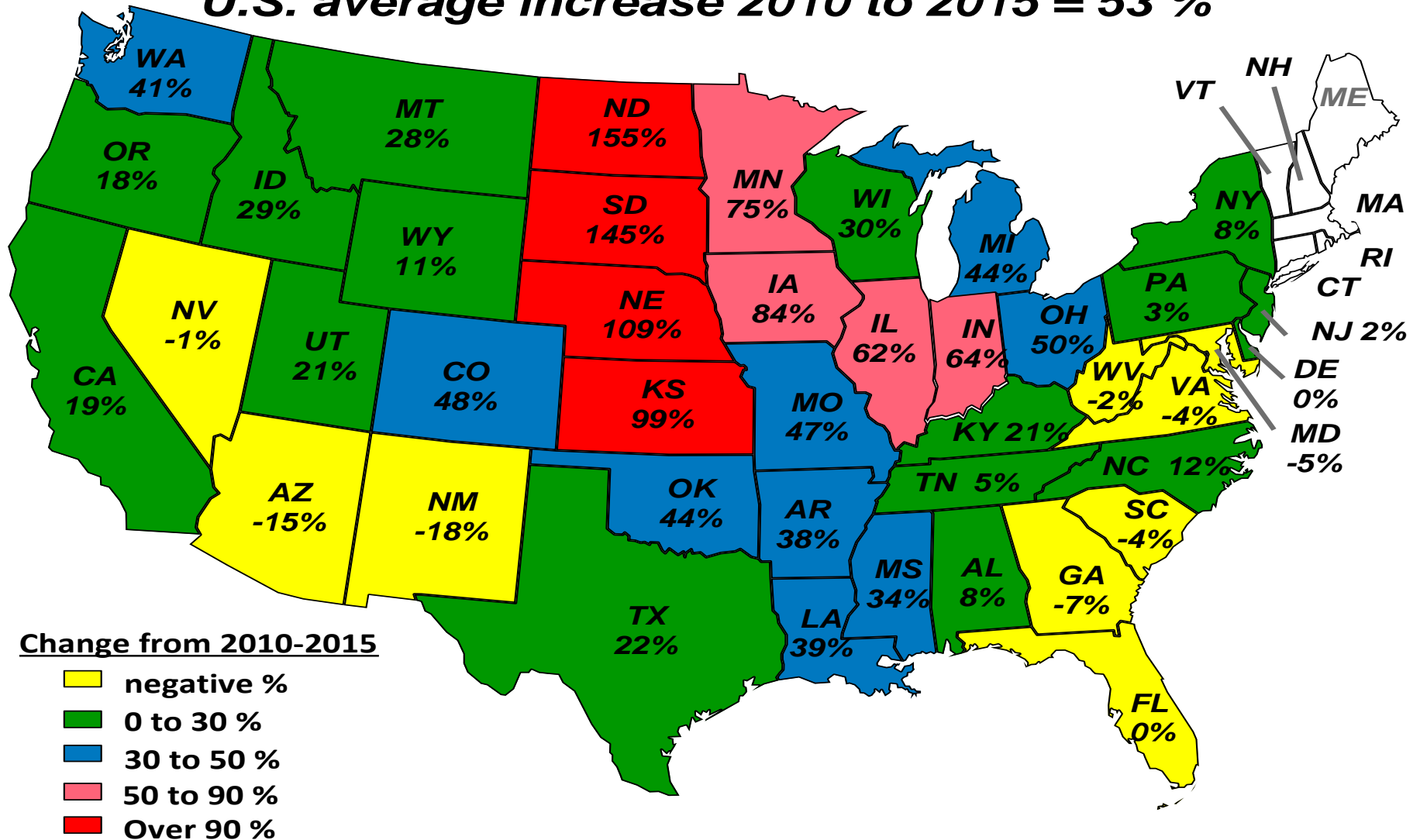


Net per acre returns for wheat, corn, soybeans and cotton weighted by planted acreage.

State Cropland Value Changes Are Diverse

Vulnerability is in Northern Plains and Corn Belt

U.S. average increase 2010 to 2015 = 53 %



QUESTIONS...

