



**WEBINAR:
Fed Rates, Labor Market,
and Grain Outlook:
What's Ahead in 2024**

January 24, 2024

10 a.m. (PT) / 11 a.m. (MT)

12 p.m. (CT) / 1 p.m. (ET)

Keynote Speakers



Rob Fox
Director,
Knowledge Exchange



Tanner Ehmke
Lead Economist,
Grains and Oilseeds,
Knowledge Exchange

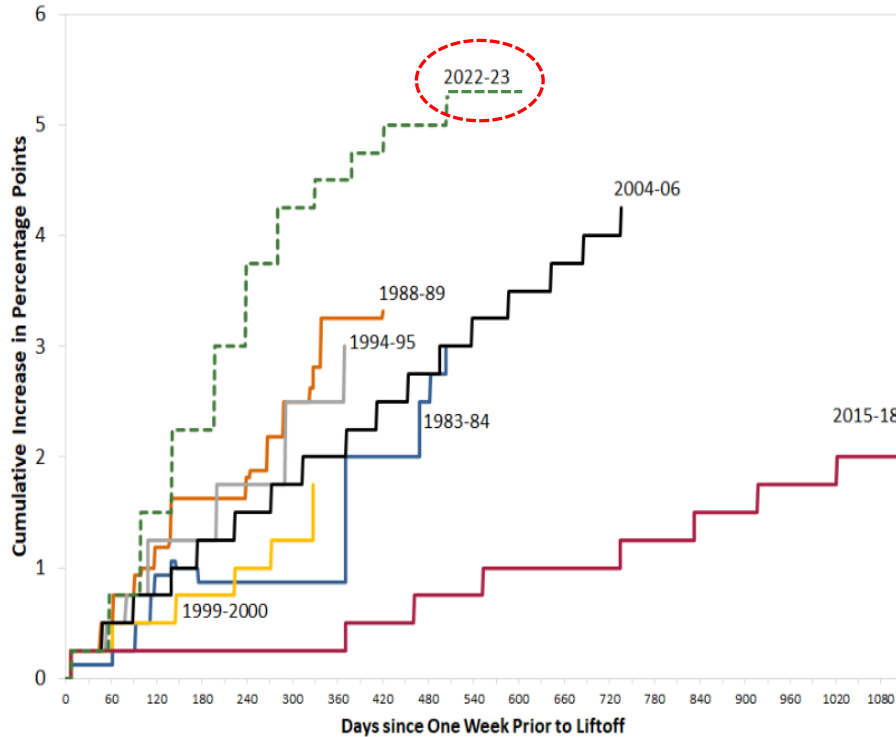


Outperforming Economy Gives Fed Plenty of Options

Rob Fox

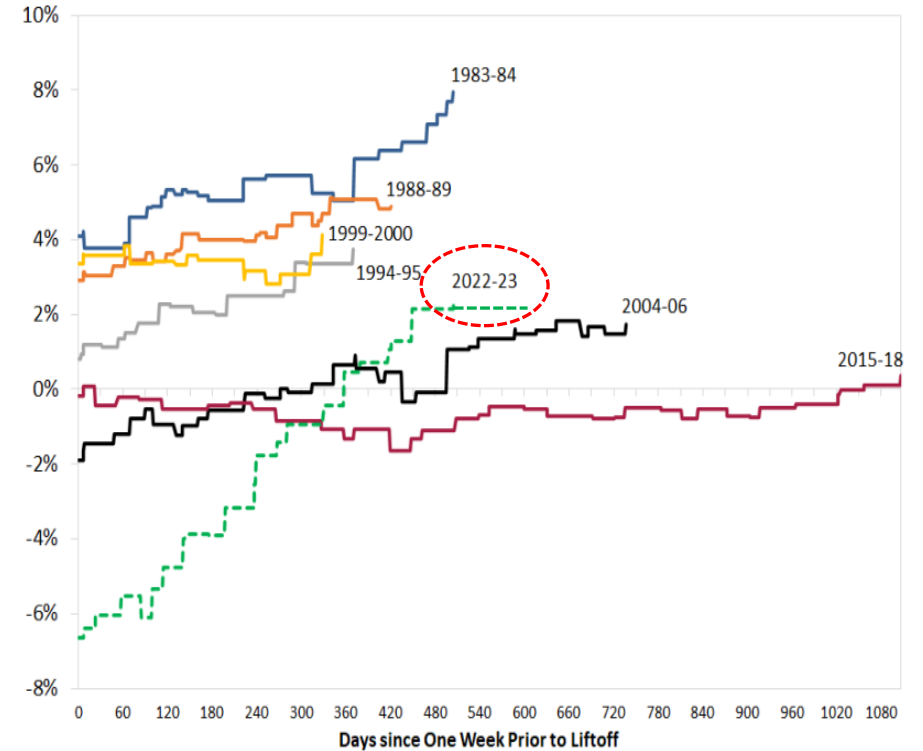
Fastest Rate Hike in 40 Years

The Magnitude of Nominal Federal Funds Target Rate Increases during FOMC Tightening Episodes since 1983

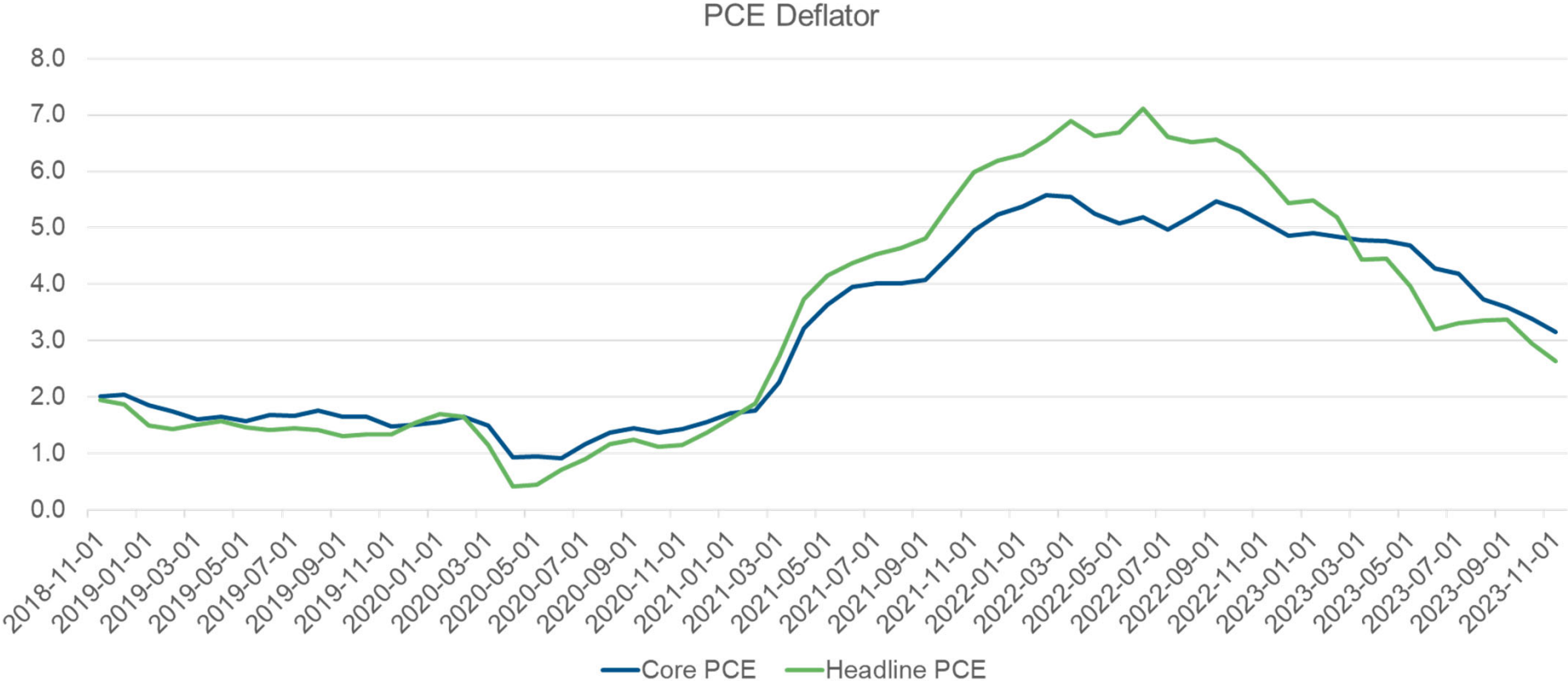


■ FEDERAL RESERVE BANK OF ST. LOUIS

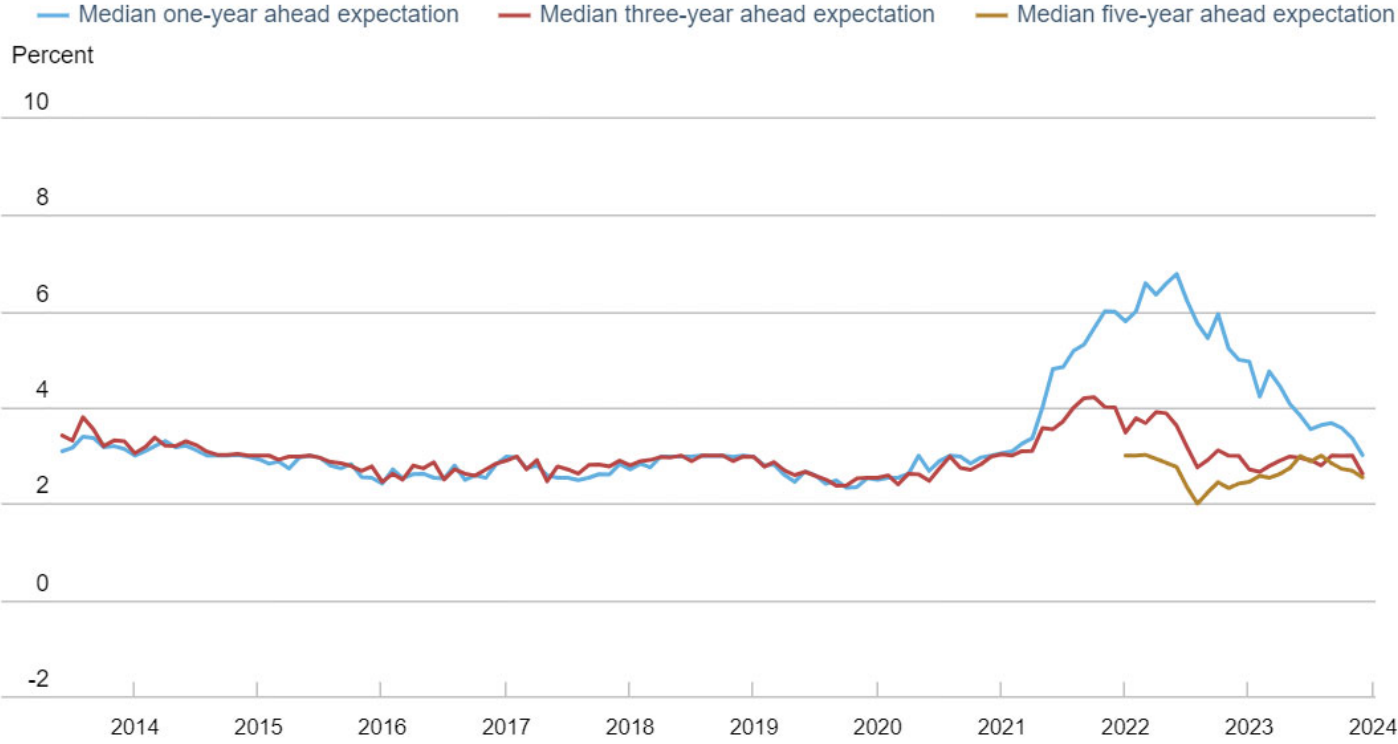
Real Federal Funds Target Rate Increases during FOMC Tightening Episodes since 1983



Inflation is Steadily Trending Lower

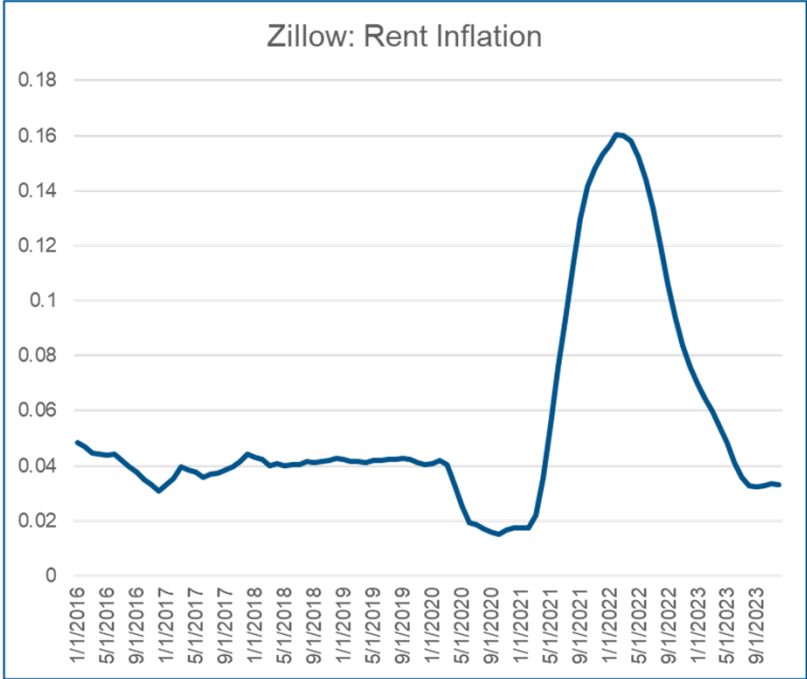
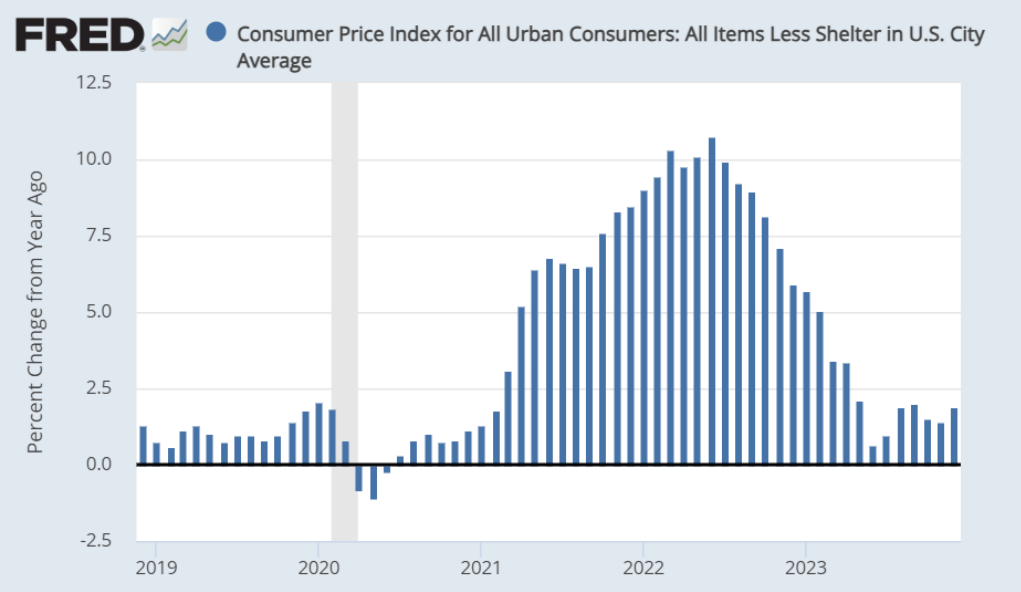


Public is Expecting Inflation to Return to Normal

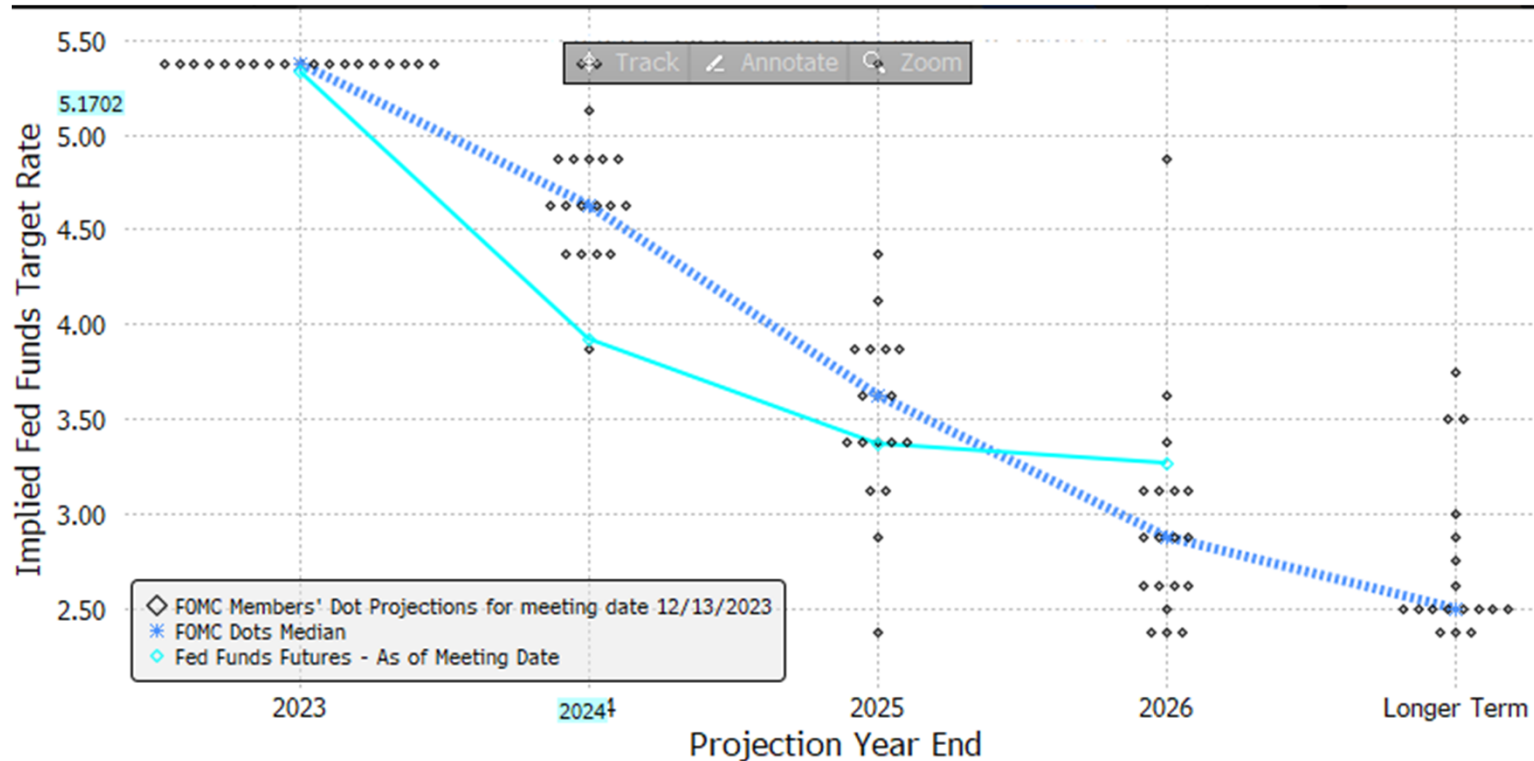


Source: New York Fed Survey of Consumer Expectations

Any Lingering Inflation is Due to Housing Costs



Fed FOMC Dot Plot: 75bp in Cuts in 2024



Poll Question #1

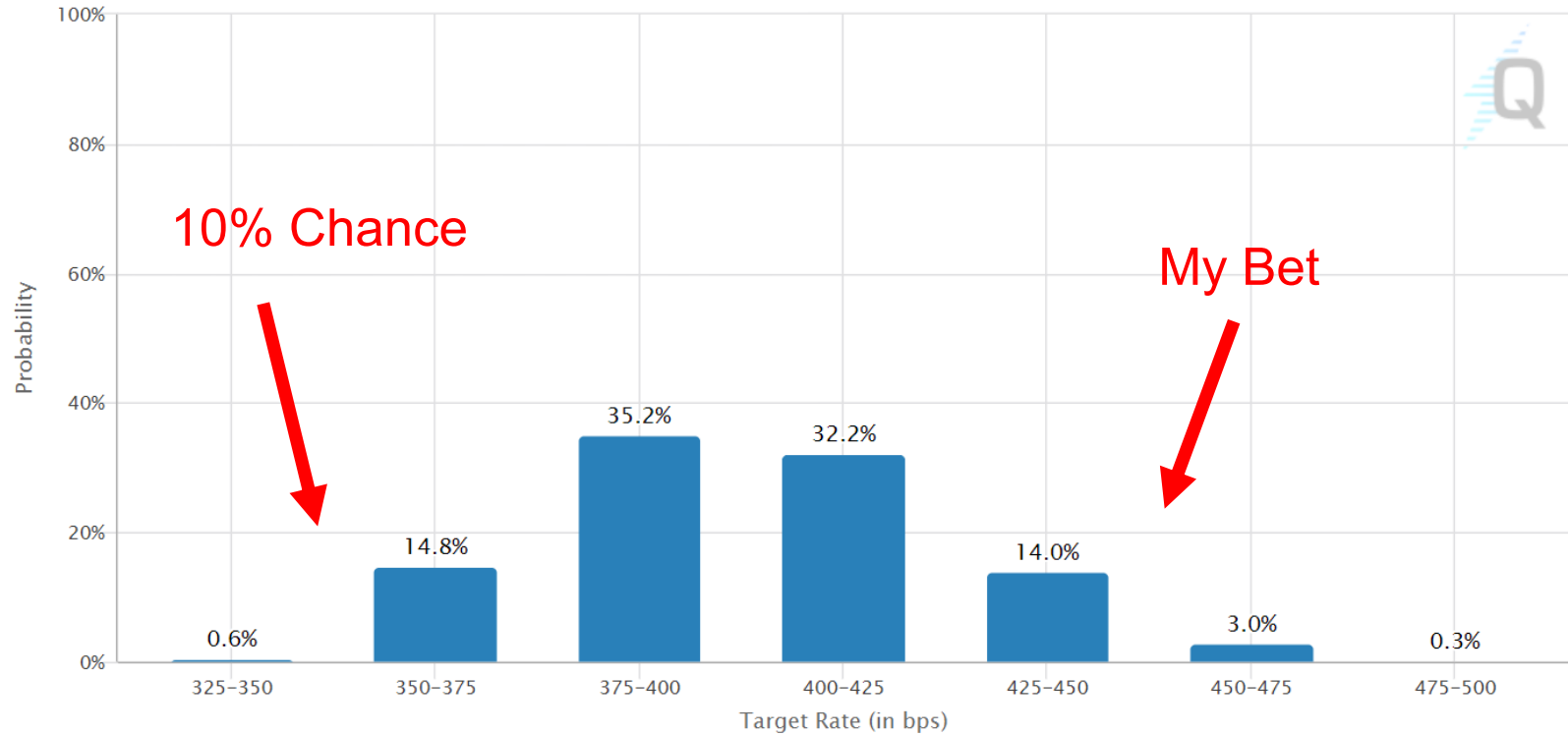
**The Fed rate today is 5.25%.
What will the Fed funds rate be at the end of 2024?**

- A. Above 4.5%
- B. 4.25 – 4.50%
- C. 4.00 – 4.25%
- D. 3.75 – 4.00%
- E. Below 3.75%

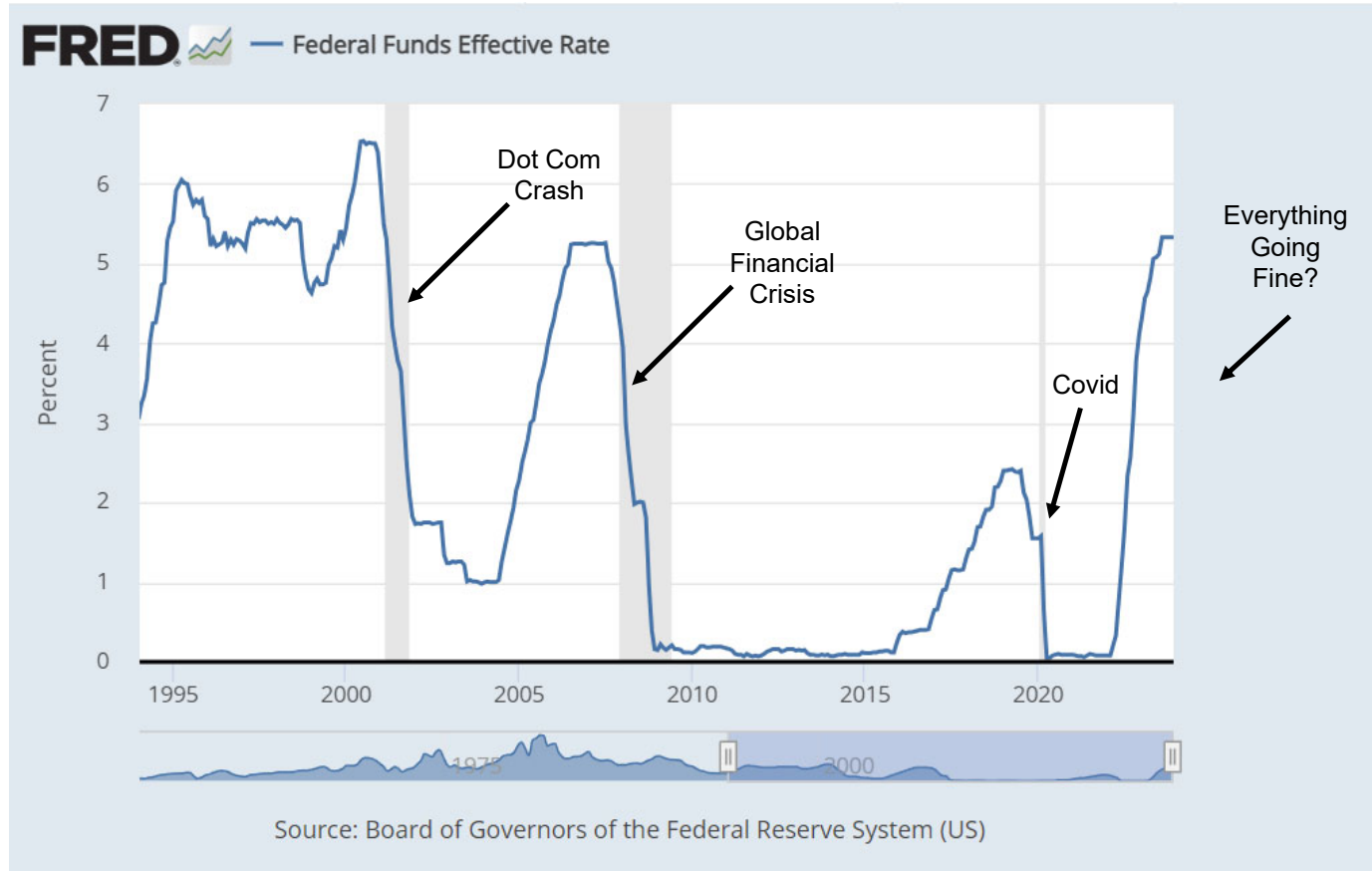
But Market is Betting on 1.25 - 1.50% in Rate Cuts in 2024

TARGET RATE PROBABILITIES FOR 18 DEC 2024 FED MEETING

Current target rate is 525-550



Prior Rate Cuts Were Driven by Drastic Situations

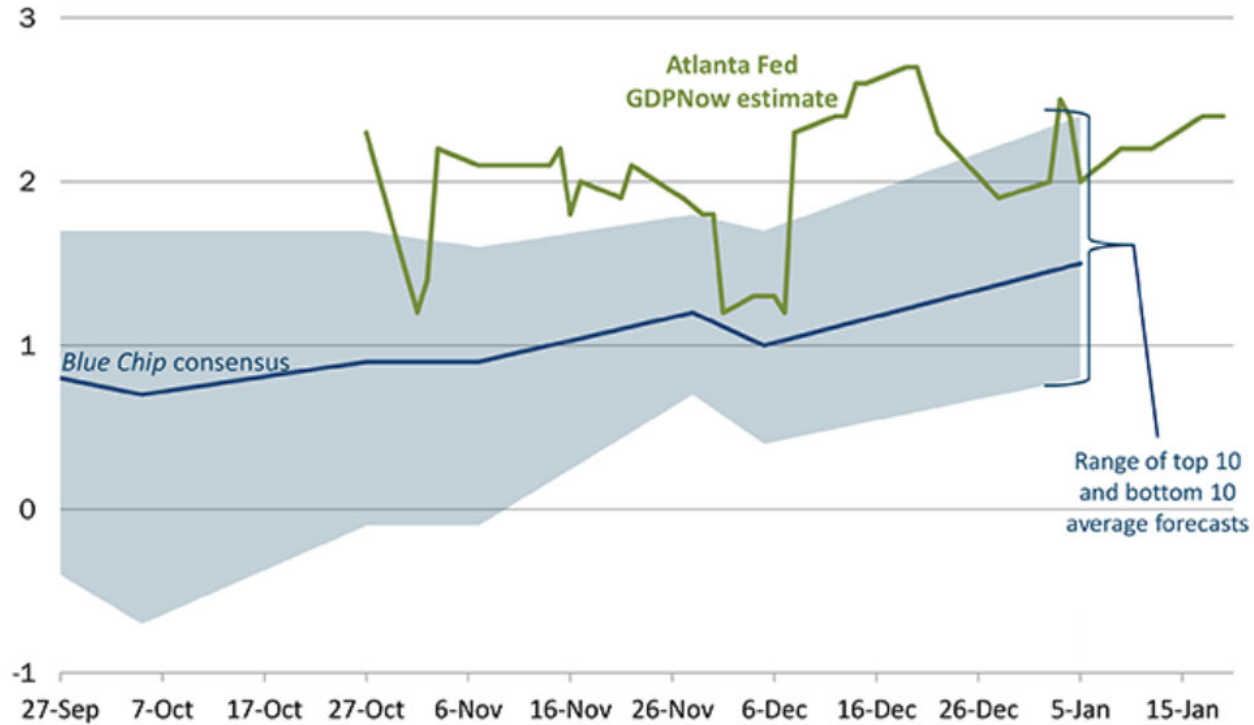


Unemployment: Does This Portend a Recession?

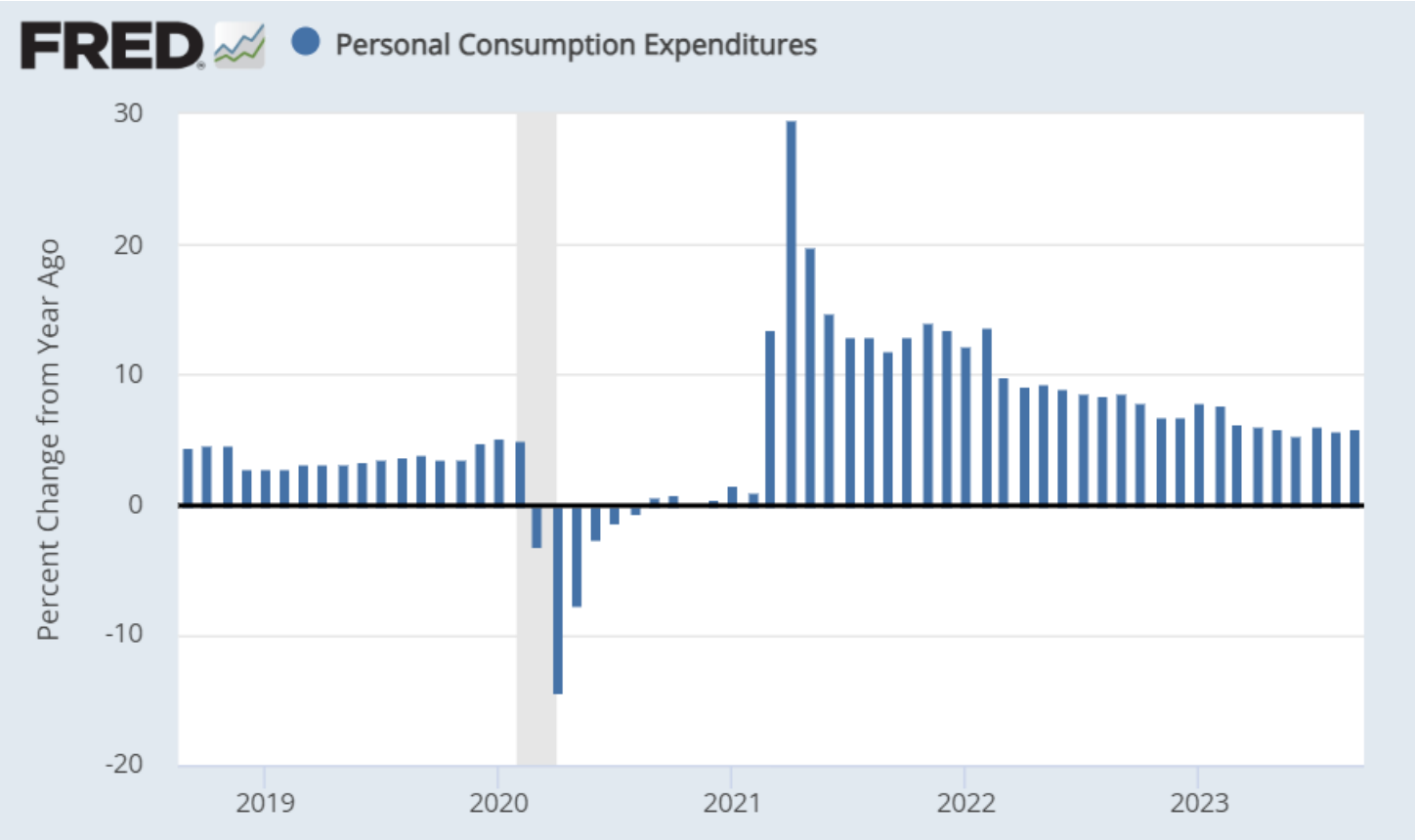


Economy Keeps Fooling the “Experts”

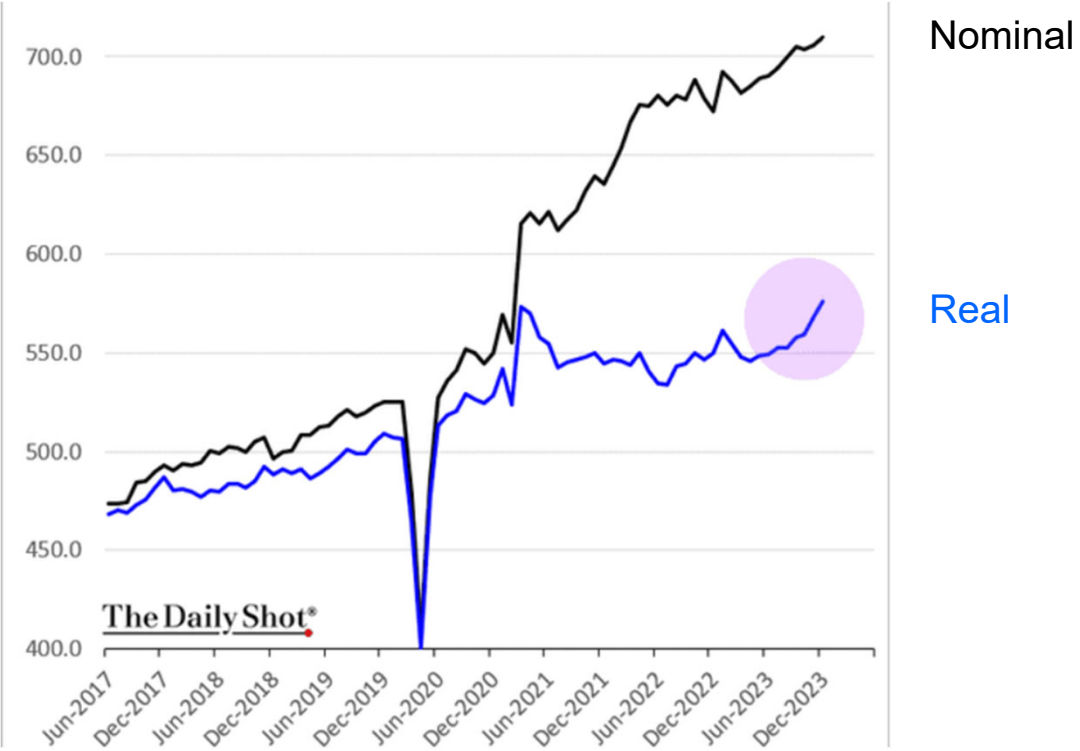
Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q4
Quarterly percent change (SAAR)



Are Personal Consumption Expenditures Slowing (???)

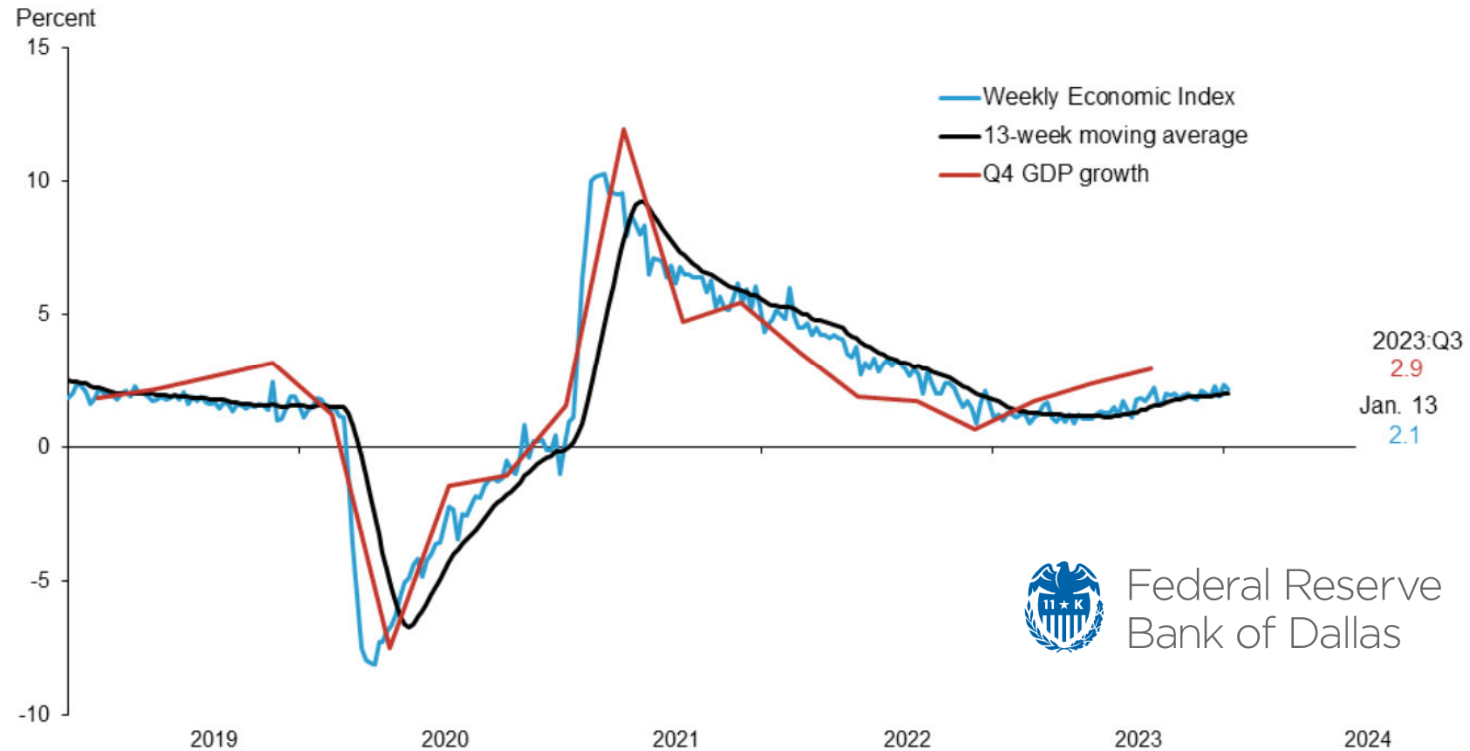


Retail Sales Power Up



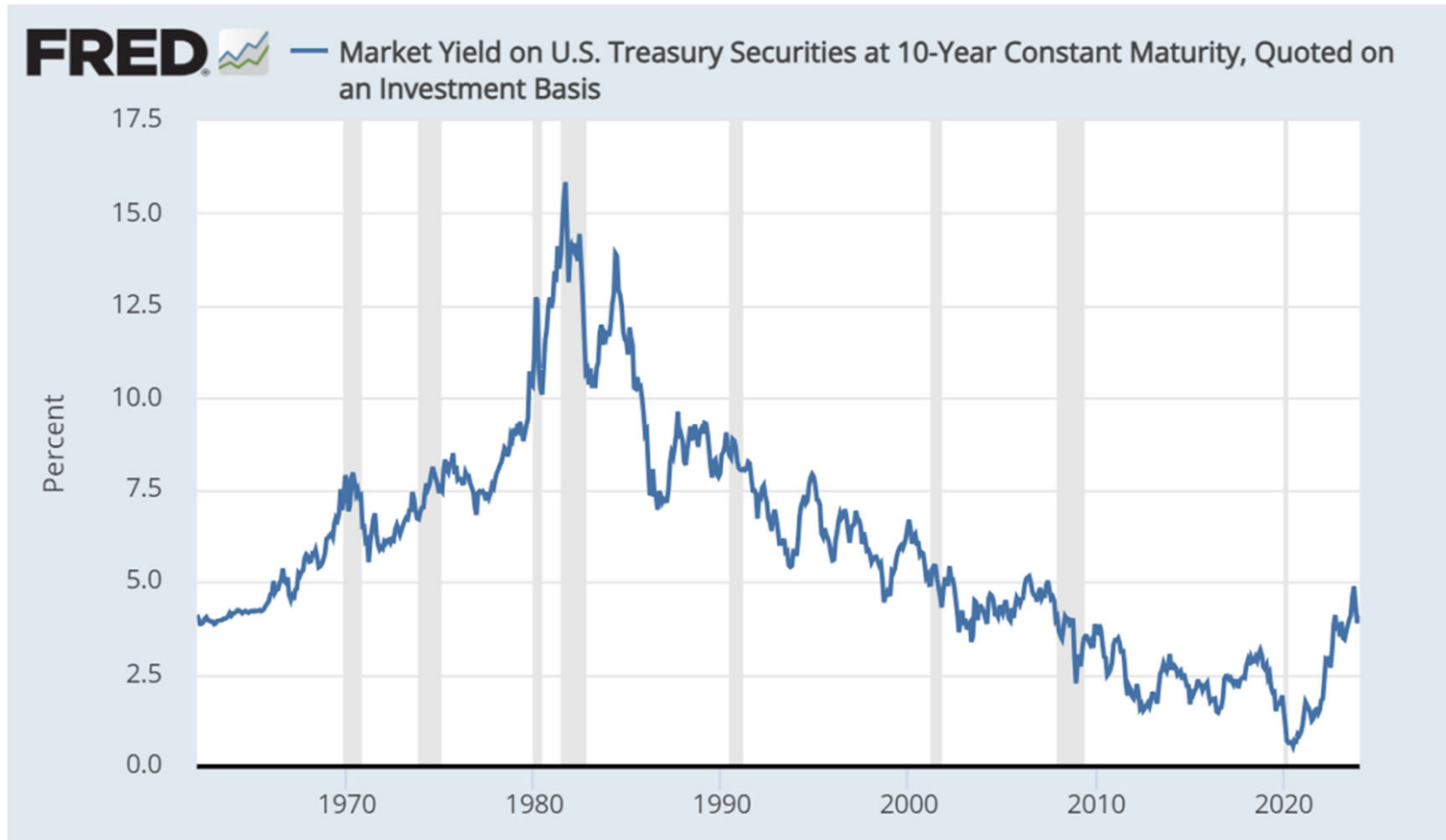
Have We Landed Yet?

Weekly Economic Index, 2019–present

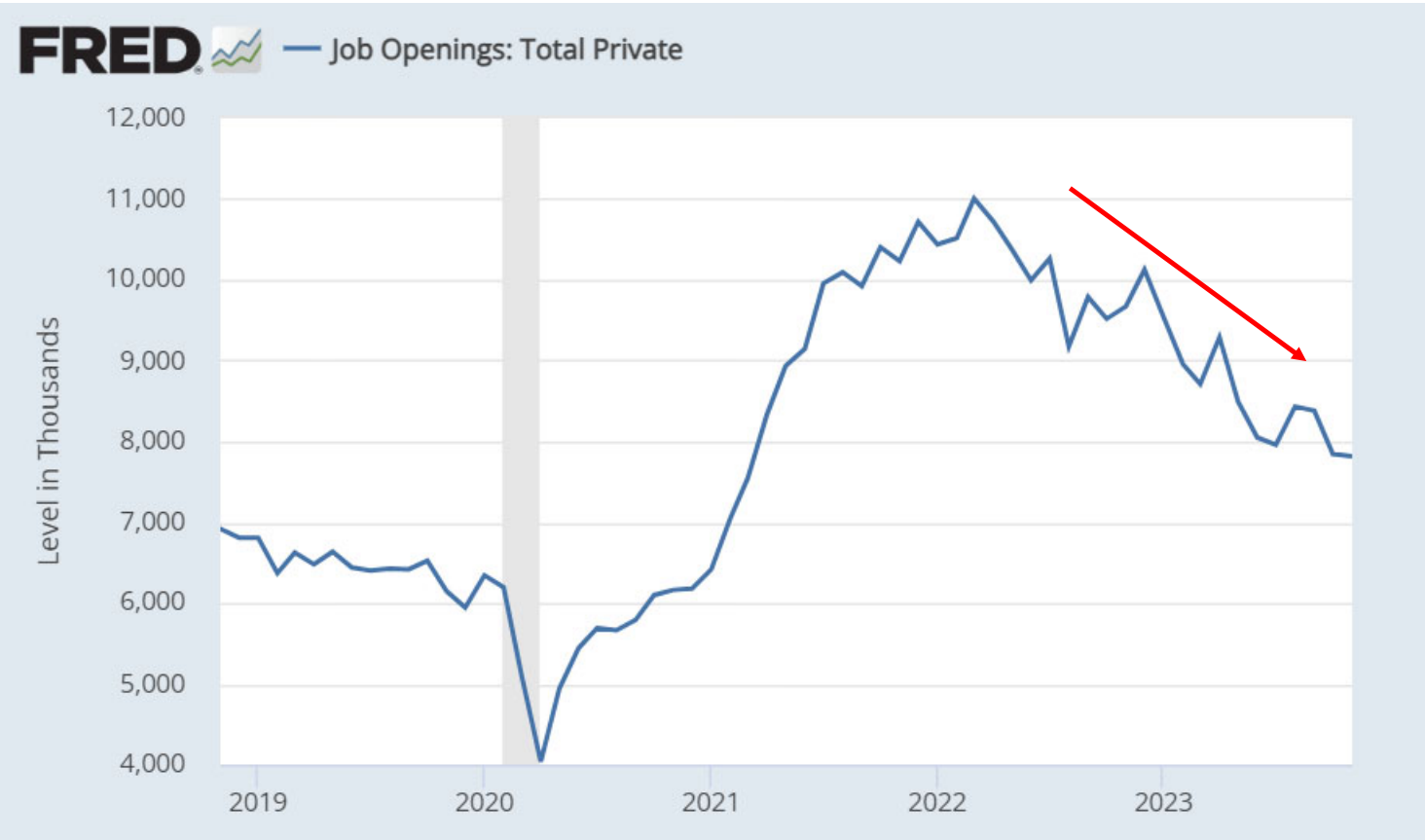


Federal Reserve
Bank of Dallas

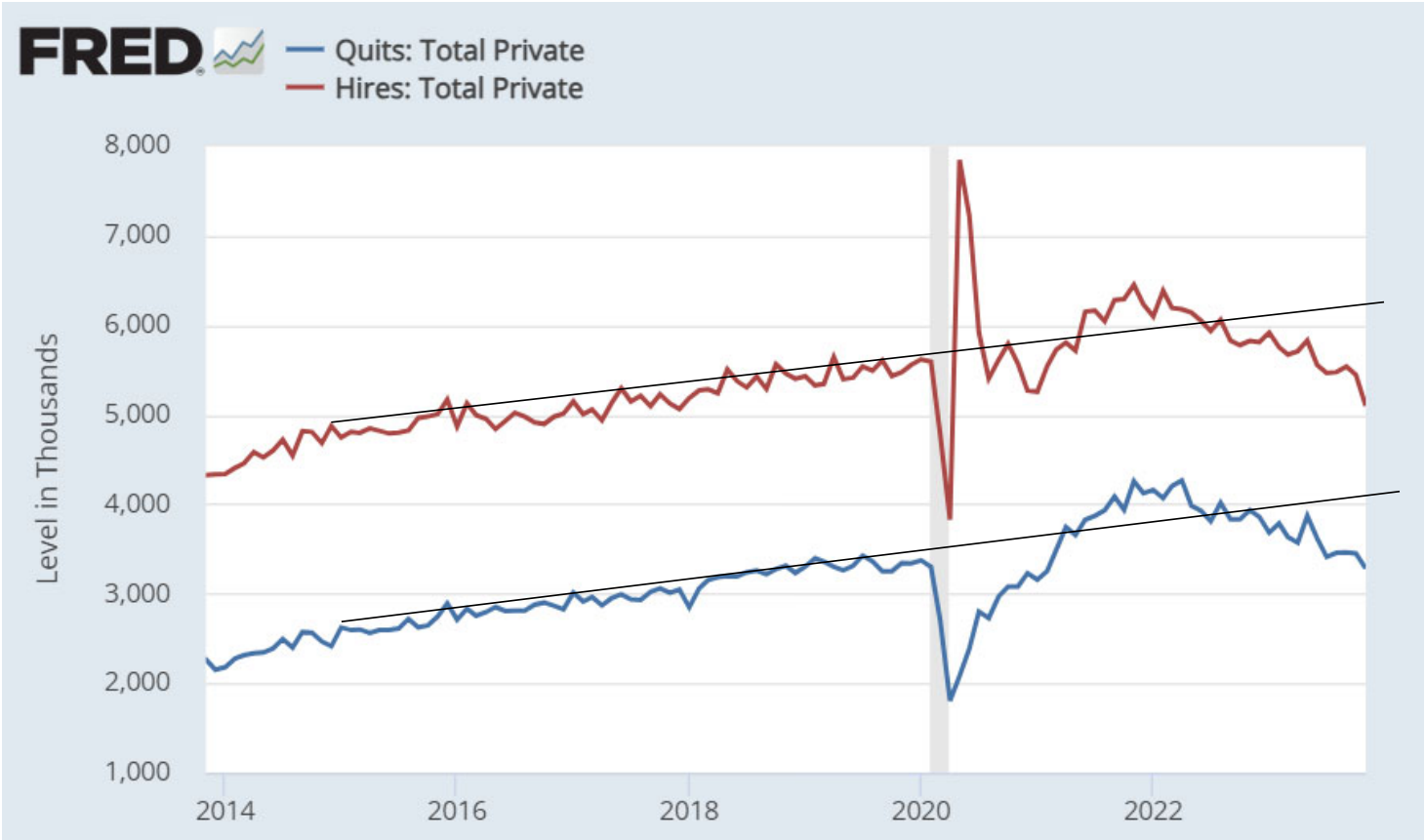
10-Year Treasury Yields at 15-Year Highs, But...



Job Openings are Declining



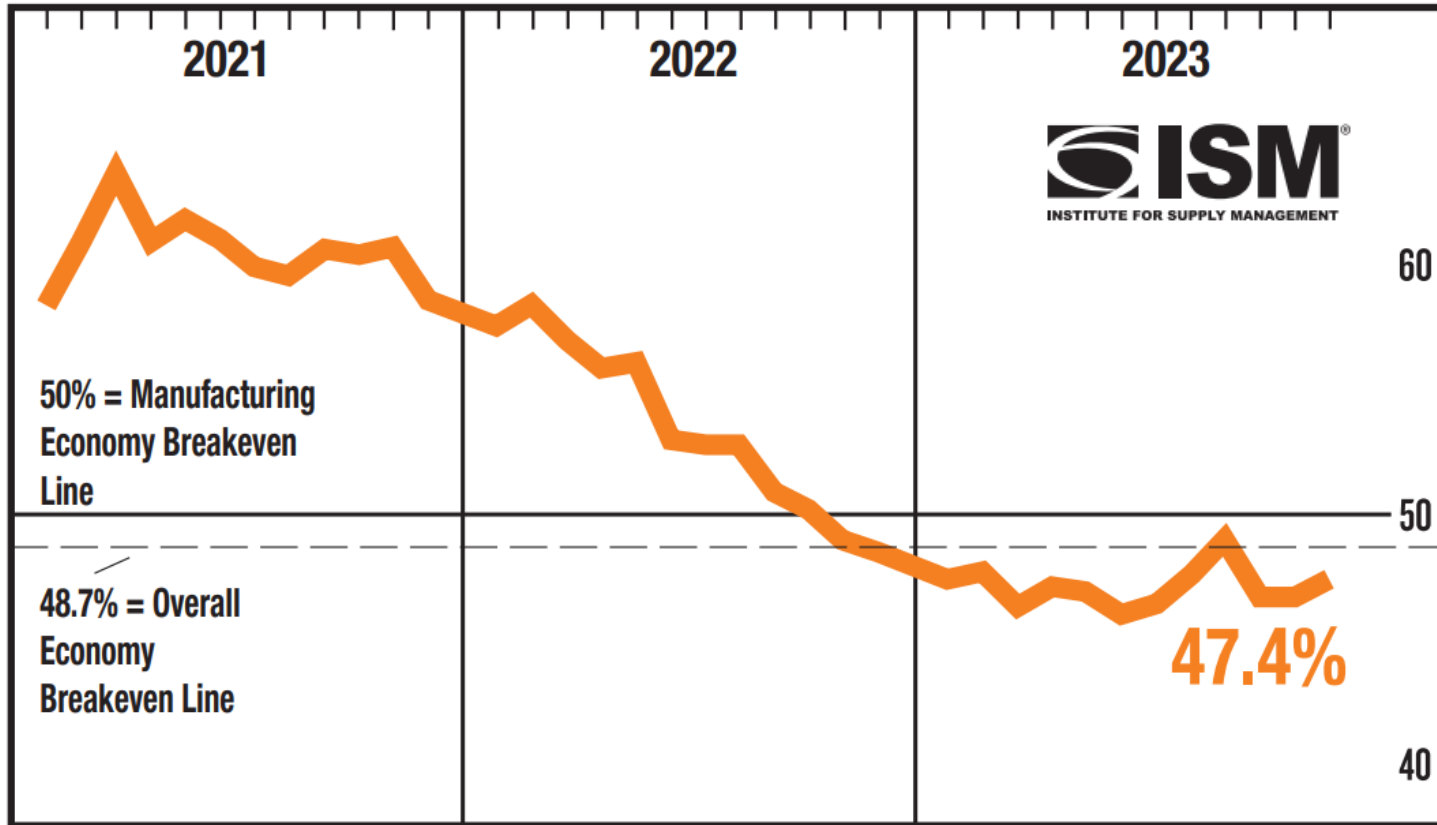
Job Quits and Hires Break Downward



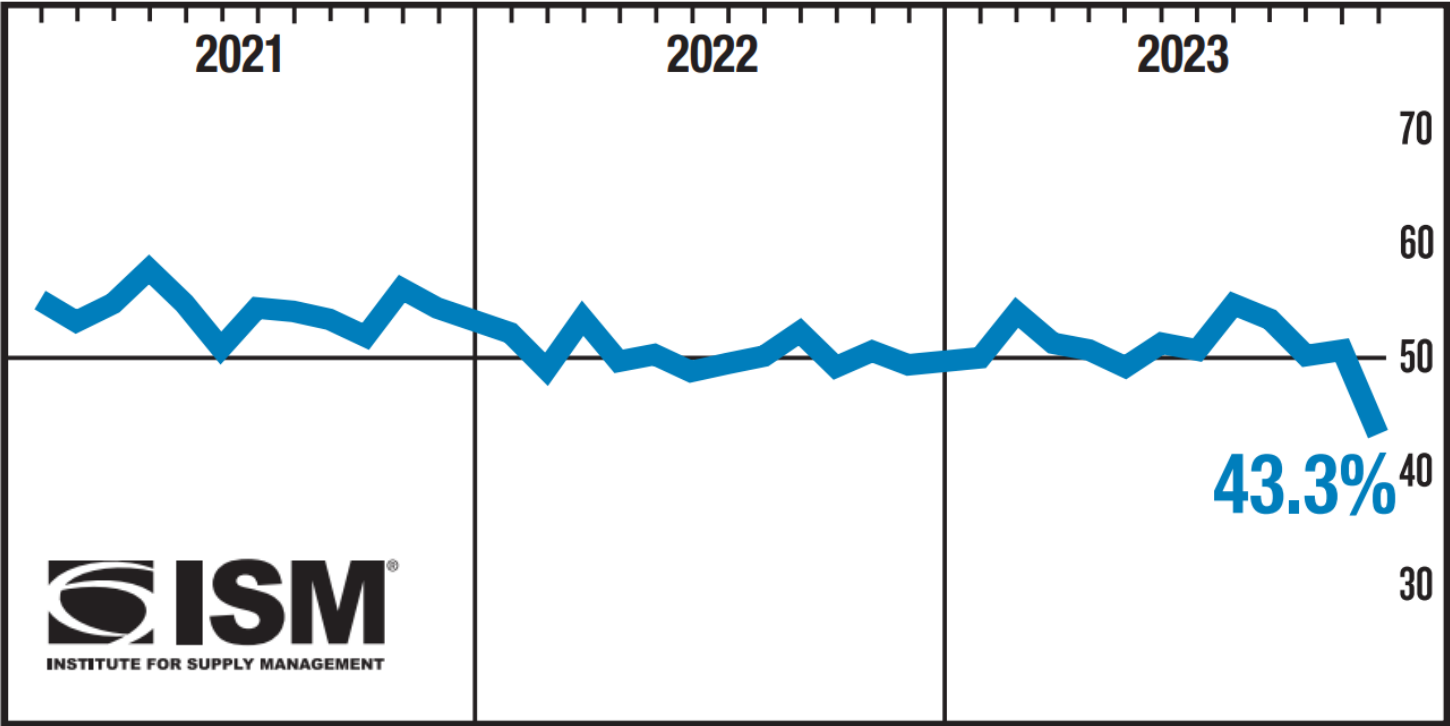
Employment Numbers: Is The Dip a Blip?



Manufacturing Surveys Are Grim



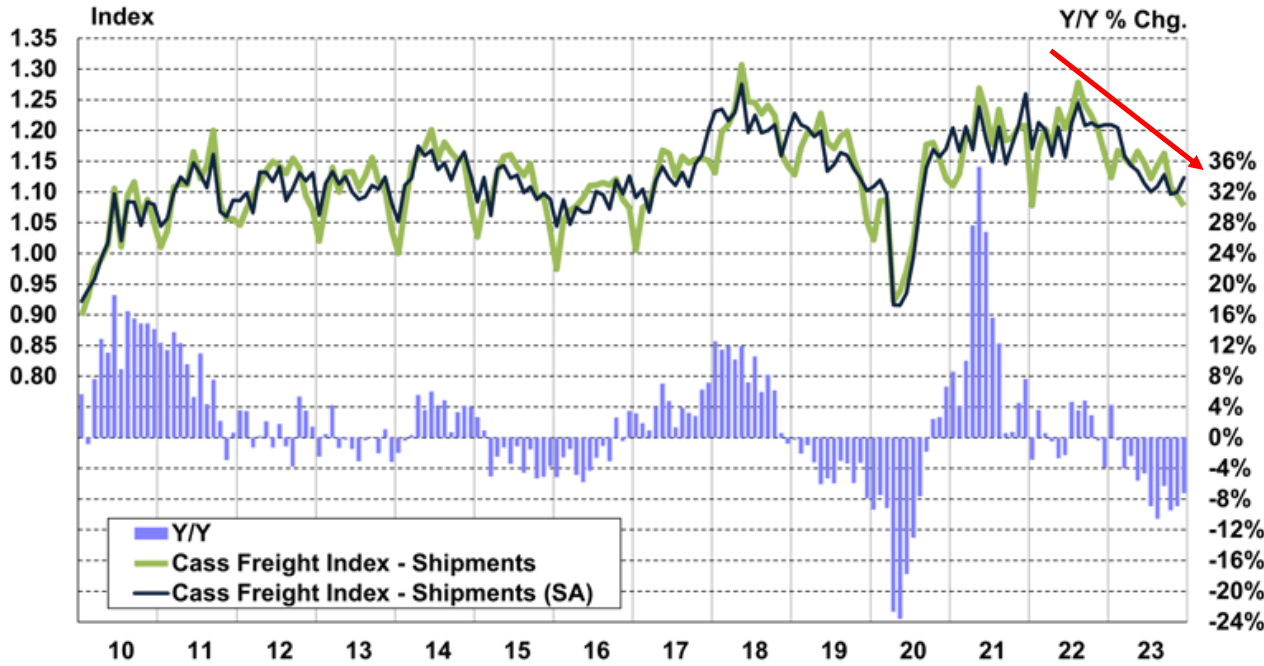
ISM Services Employment Survey Worst In 20 Years



Trucking Volumes Down Sharply

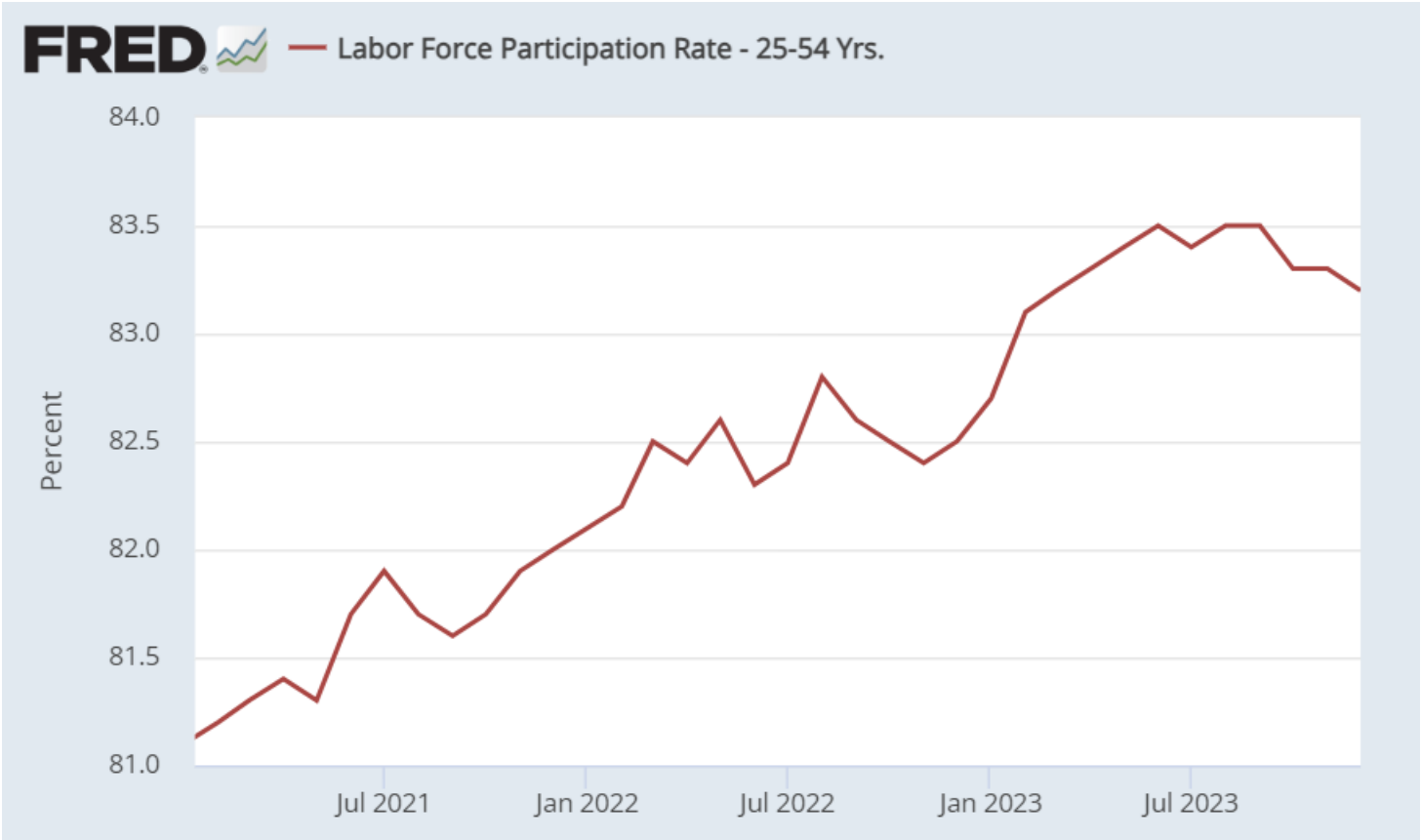
Cass Freight Index® - Shipments

January 2010 - December 2023 (01'1990=1.00)

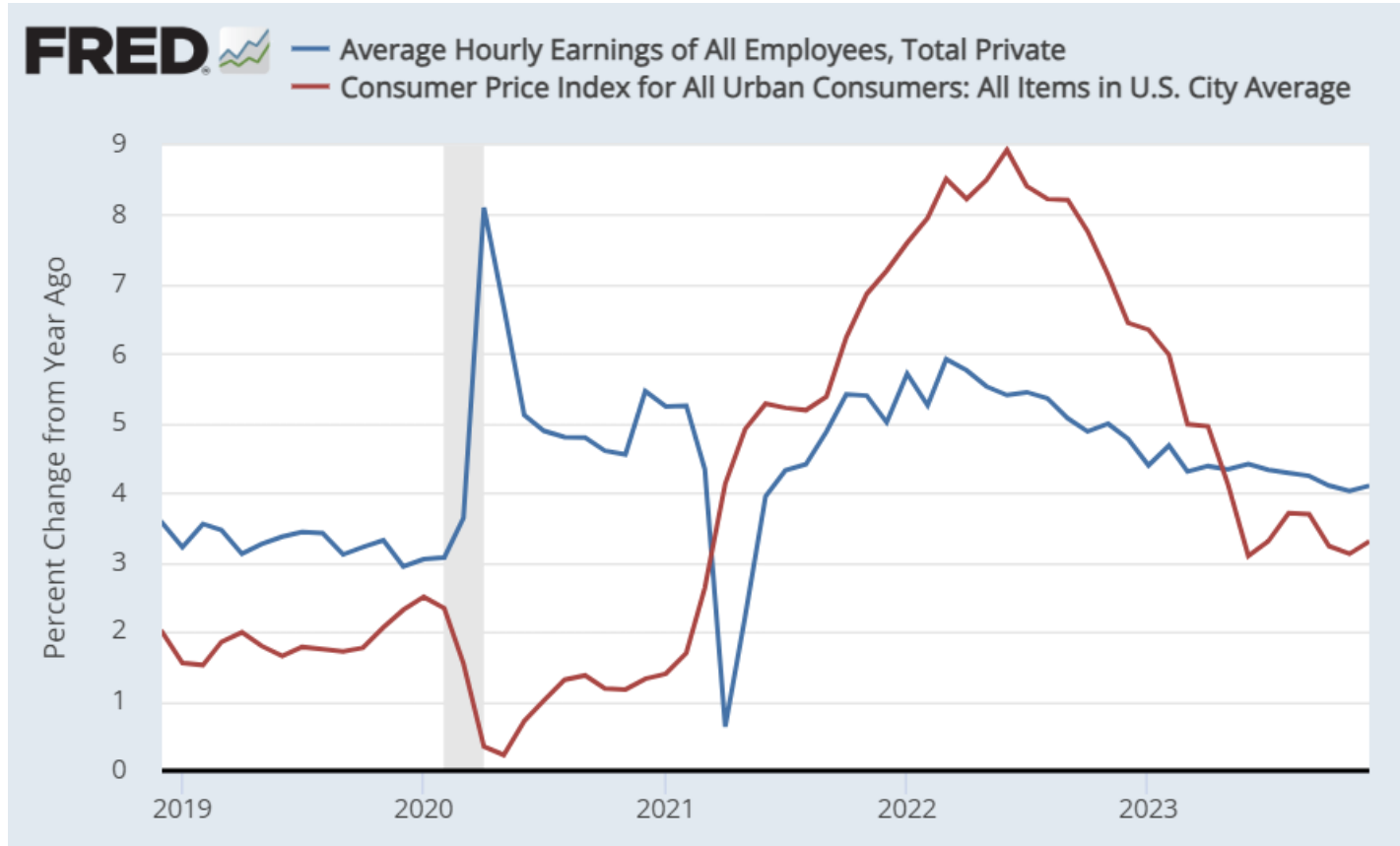


Source: Cass Information Systems, Inc., ACT Research Co. © 2024

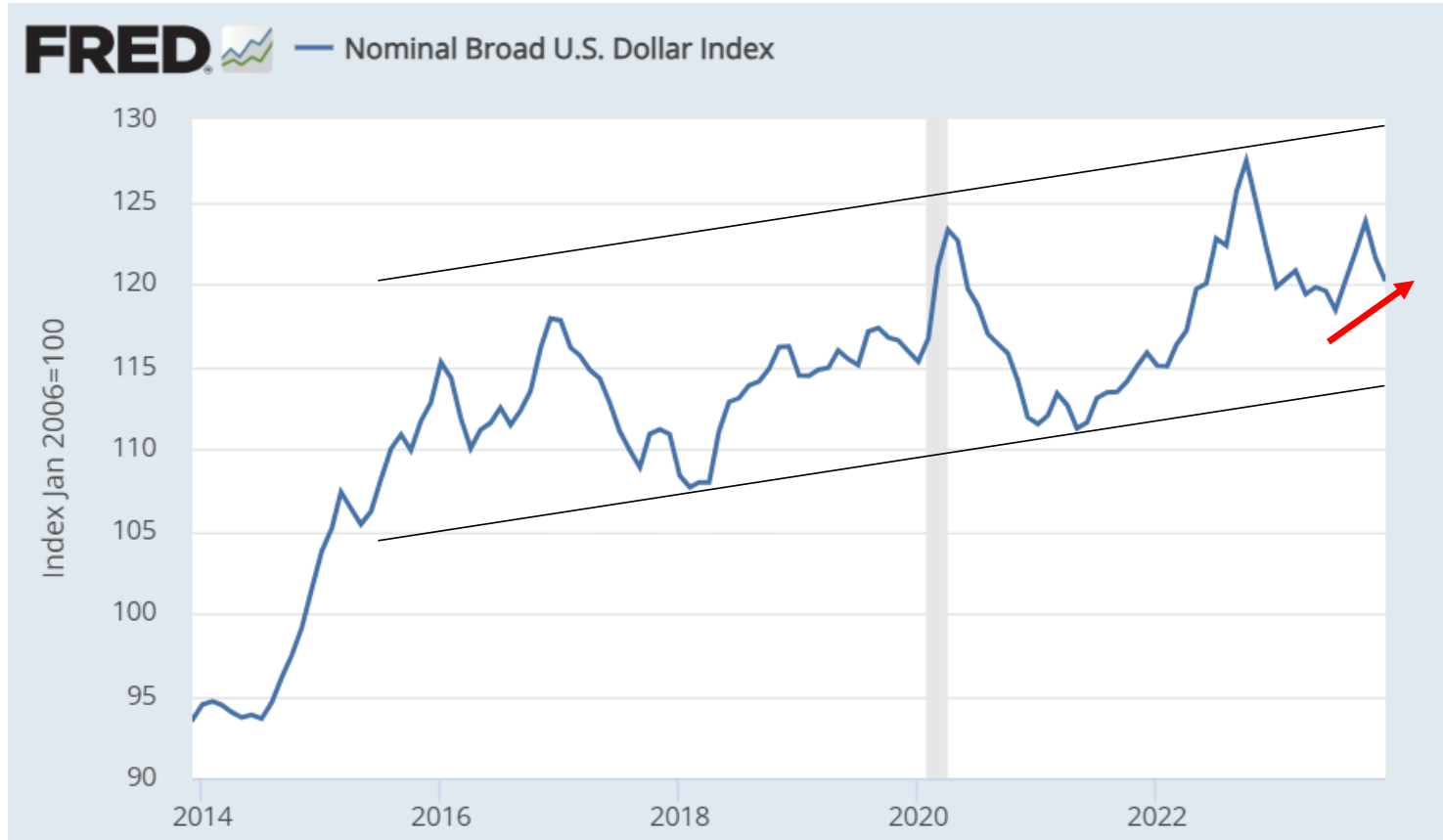
Prime Age Labor Force Participation Breaks Downward



Real Wage Growth Back In Line With Historic Norms



Dollar Decline Reverses On Improving Economic Prospects



In Summary

- The economy is running fairly smoothly at current interest rates
- But there are signs that the labor market is slowing down
- Inflation is well under control
- Fed is likely to move slowly unless the situation worsens
- Slowing global growth, deglobalization, and geopolitical conflict will act as long-term headwinds

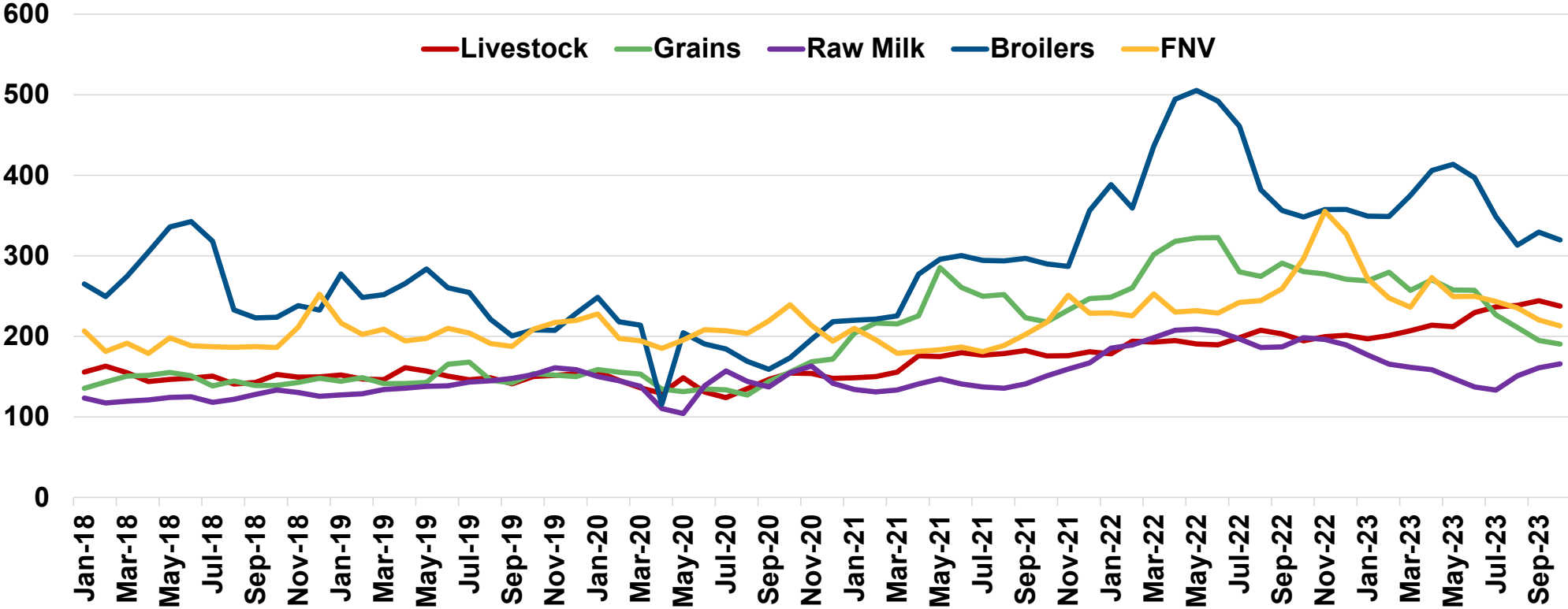


Grain Outlook

Tanner Ehmke

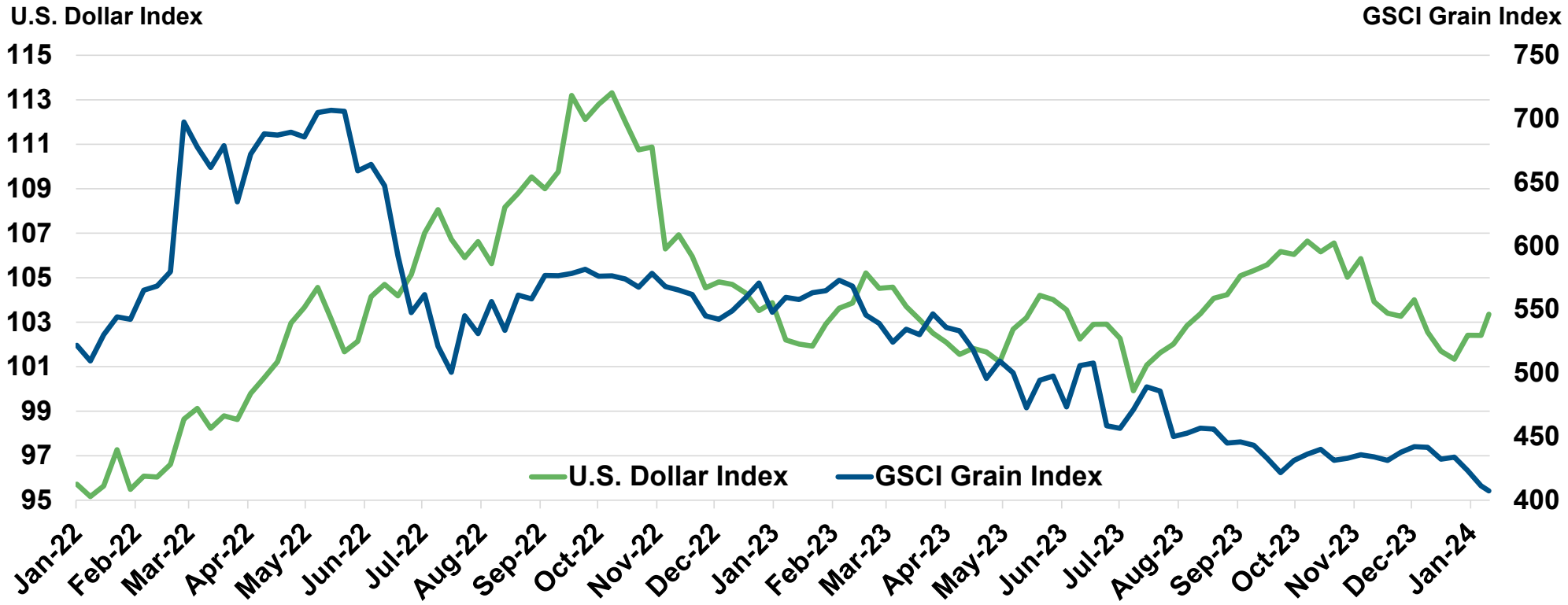
Ag Commodity Prices are Mostly Lower, Except Livestock

Farm Product Indexes



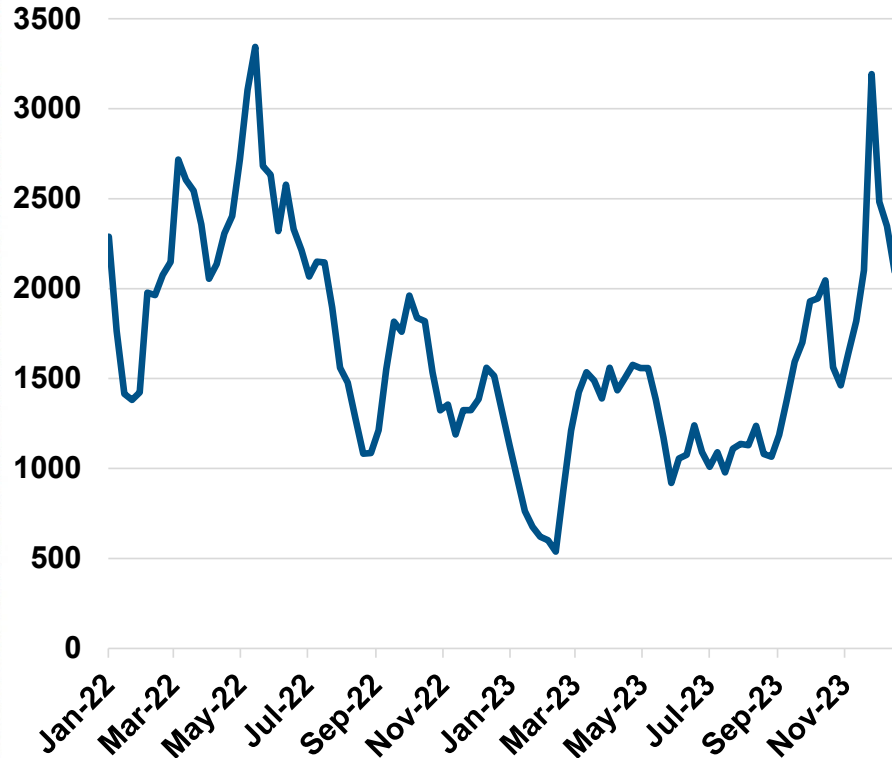
Strong U.S. \$, Supply Abundance has Pressured Grain Markets

U.S. Dollar Index v. Grain Index

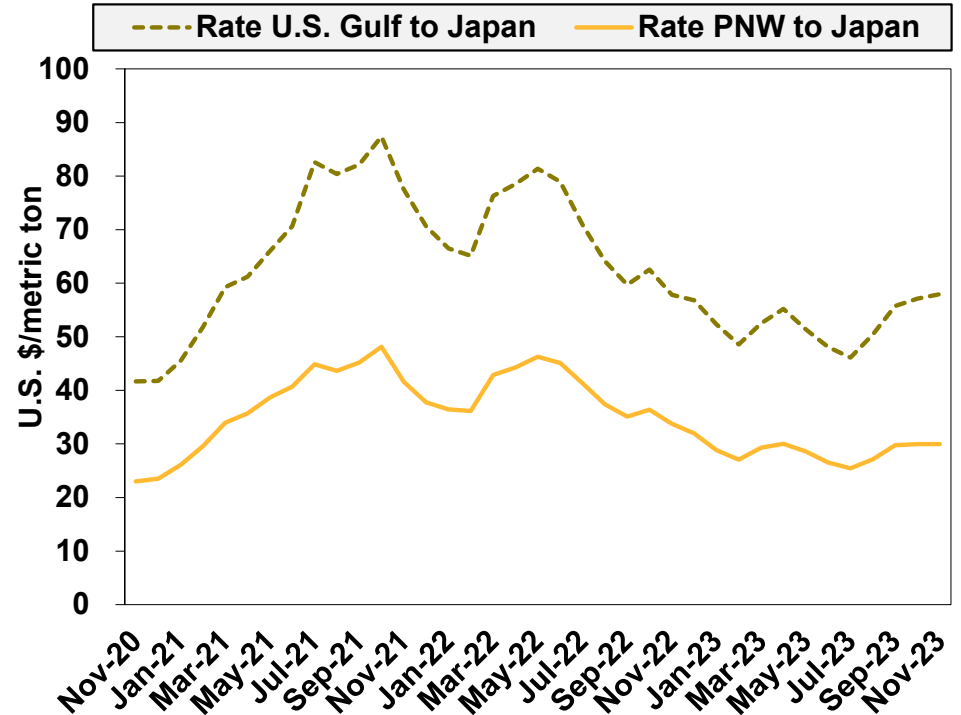


Global Trade Uncertainty Affecting Shipping Rates

Baltic Dry Index

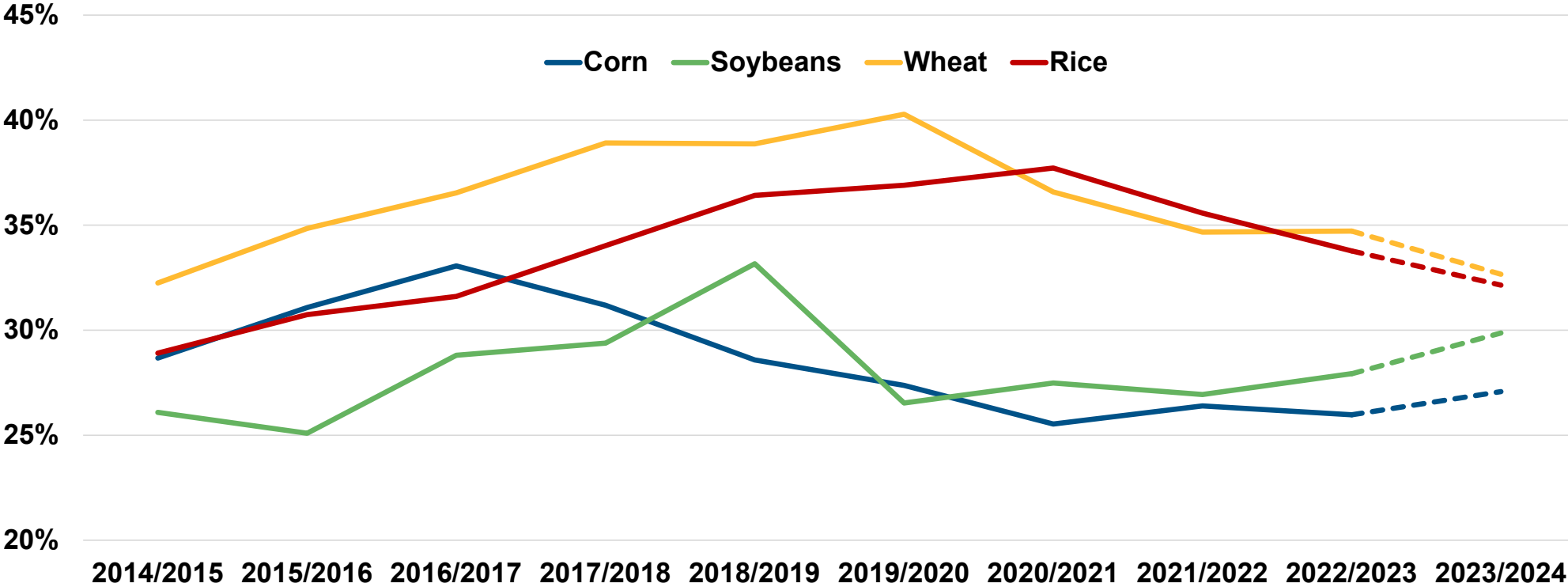


Grain Vessel Rates



World Stocks/Use Ratios Loosening for Corn, Soybeans

World Stocks/Use Ratios

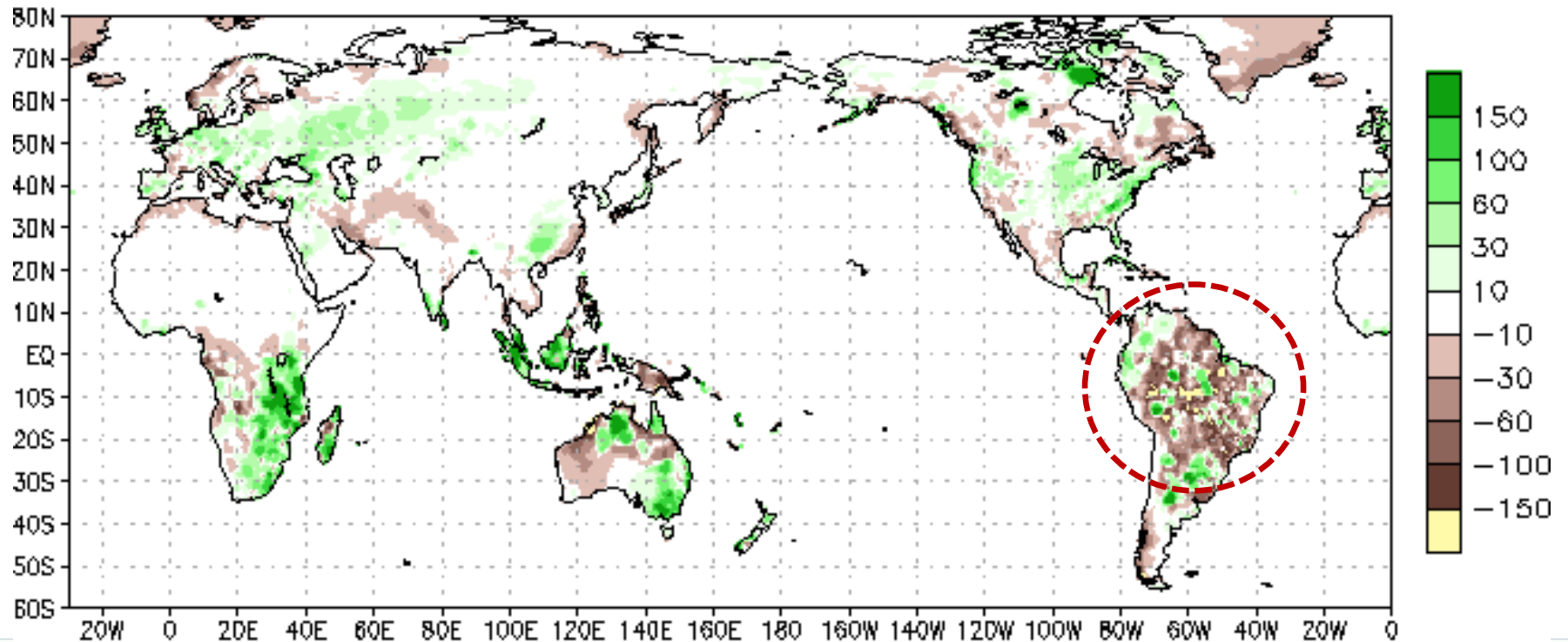


Source: USDA-FAS; CoBank

South American Weather Remains Key Market-Driving Factor

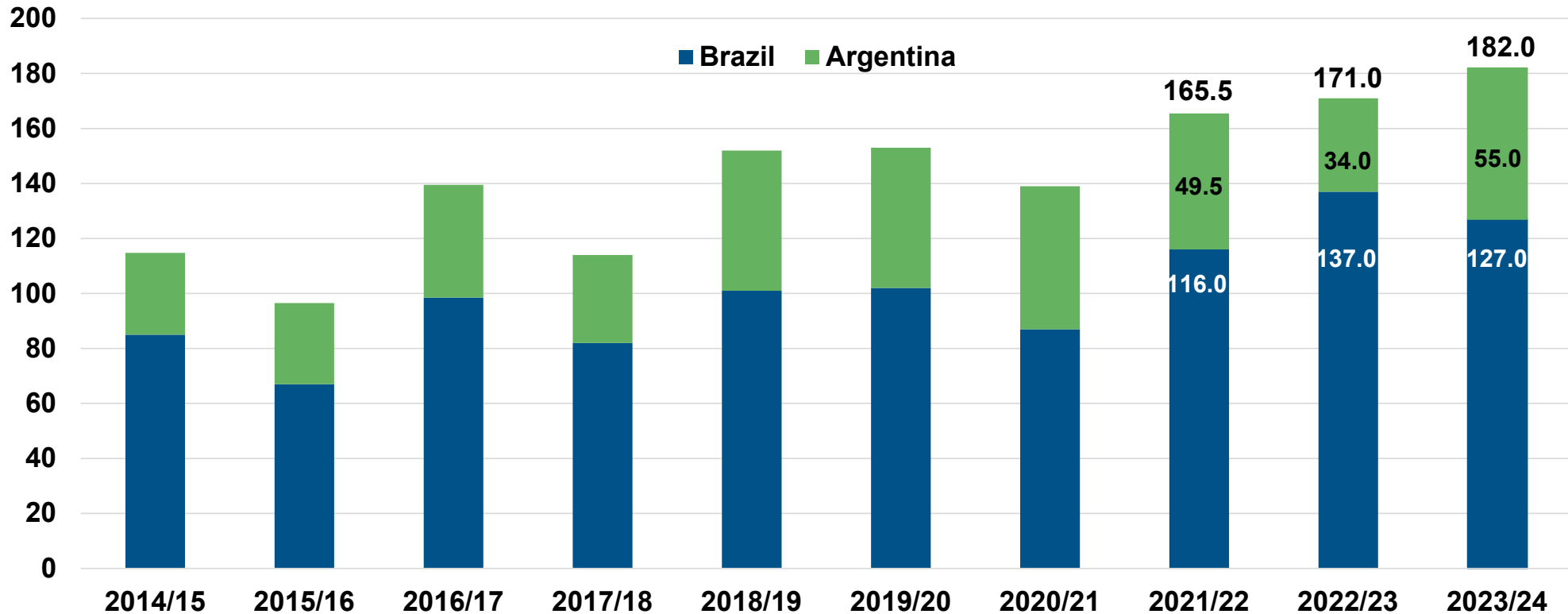
30-Day Precipitation Anomalies

Prep Anomalies (mm) 23 DEC 2023 – 21 JAN 2024



South American Corn Crop Expected to be Record High

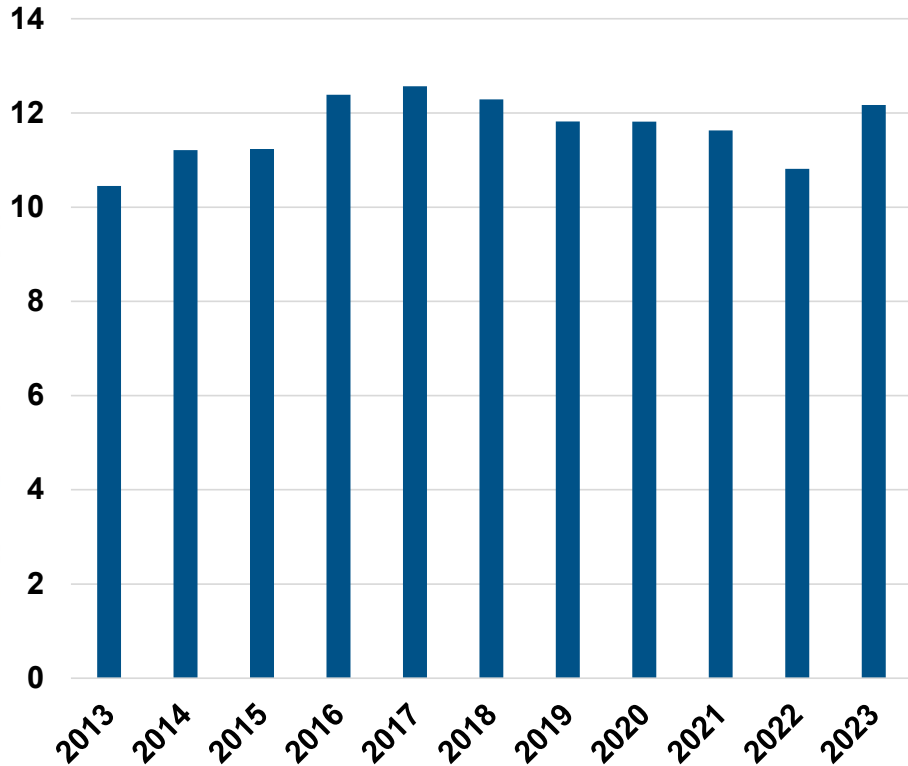
Brazil and Argentina Corn Production (MMT)



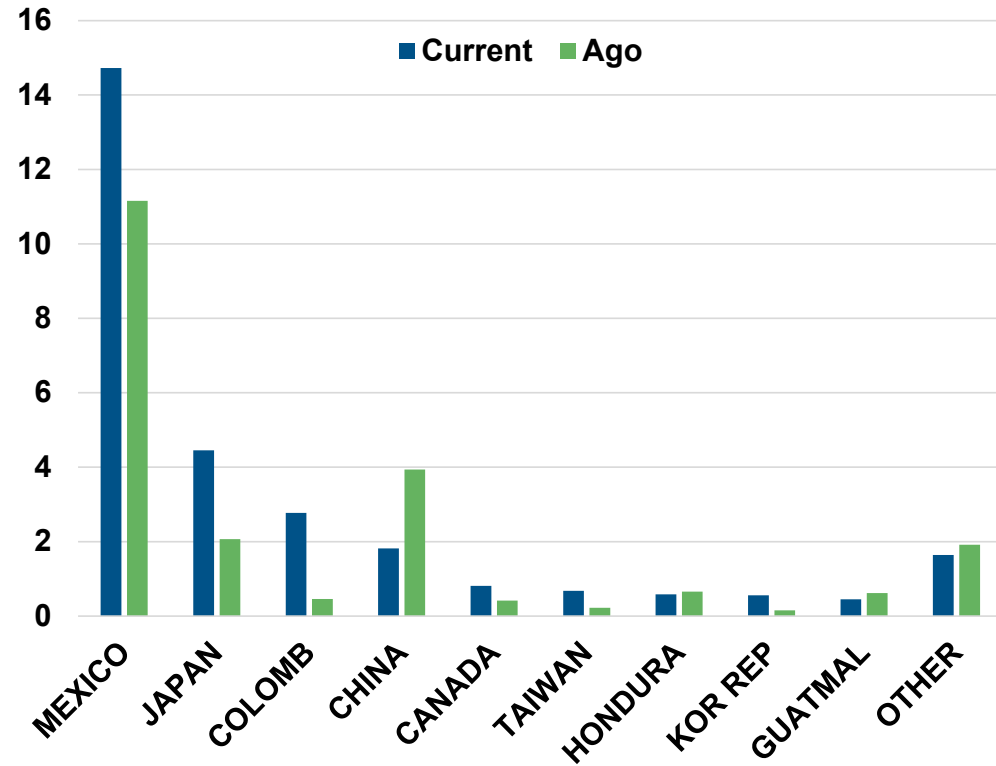
Source: USDA-FAS

Corn Export Sales up 36% YoY, but Stocks are Ample

U.S. Corn Stocks on Dec. 1 (billion bu.)

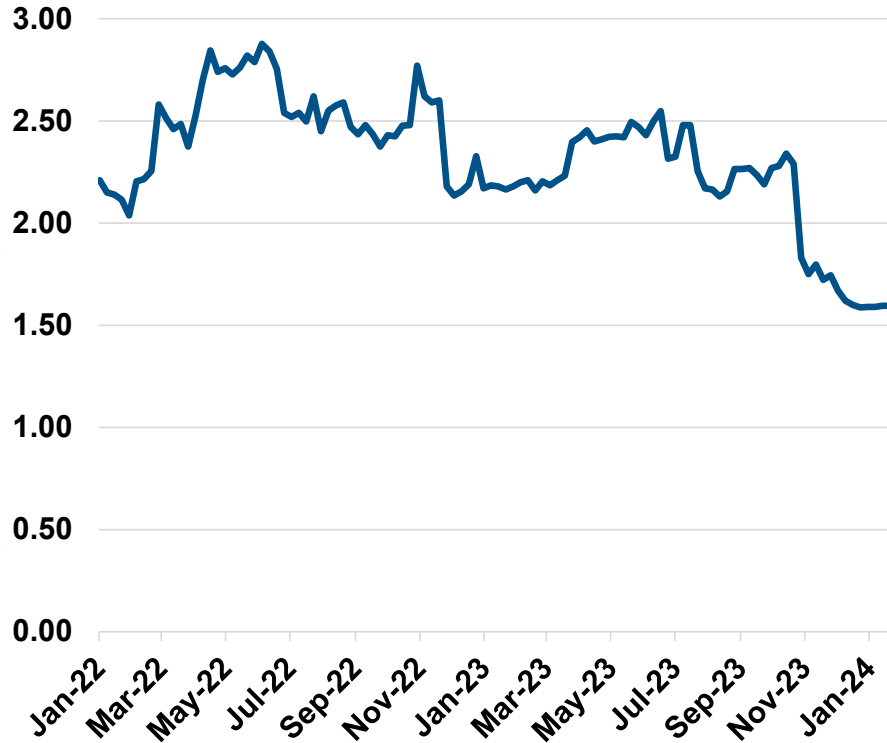


U.S. Corn Export Commitments (MMT)

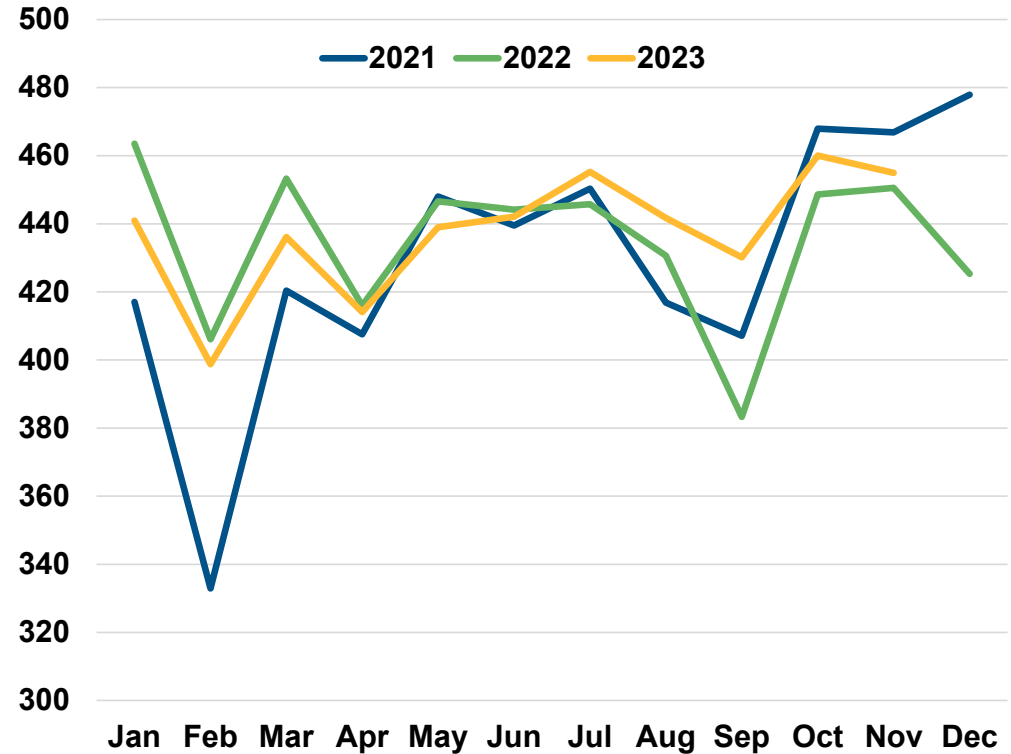


Ethanol Margins Holding Strong on Lower Corn, NatGas Prices

Ethanol (\$/gallon)

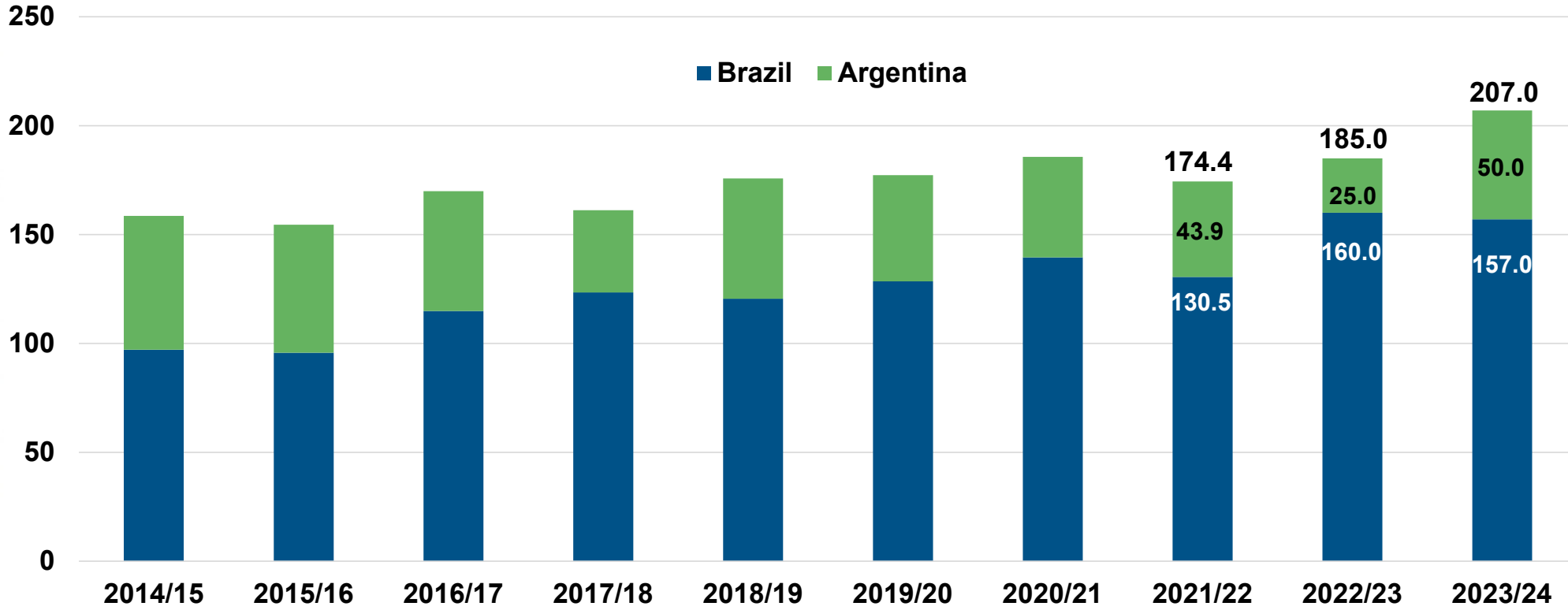


Corn Consumed for Ethanol (million bu.)



South American Soybean Crop Expected to be Record Large

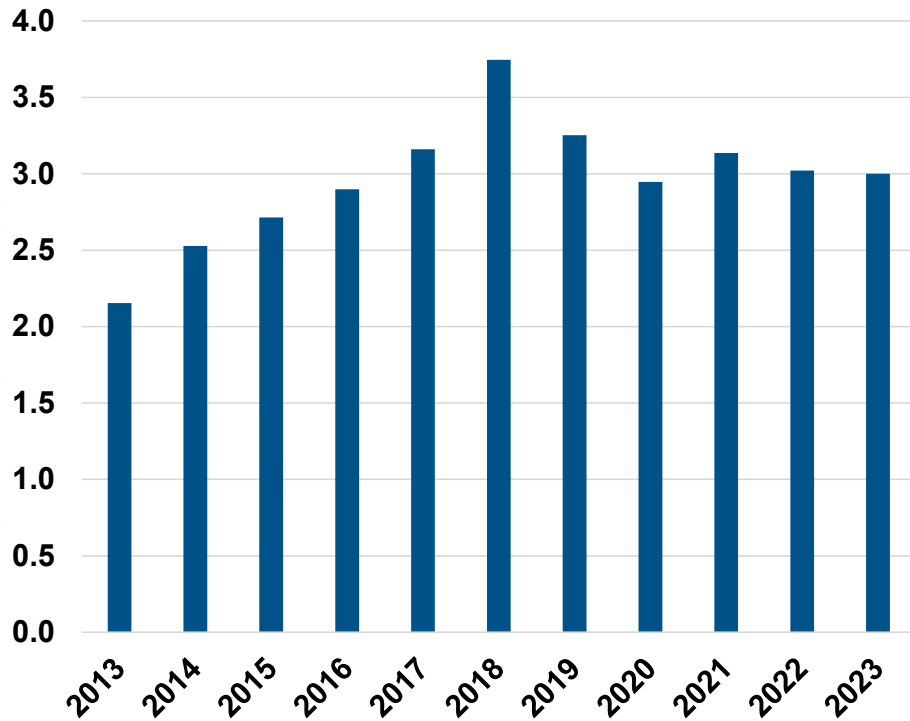
Brazil and Argentina Soybean Production (MMT)



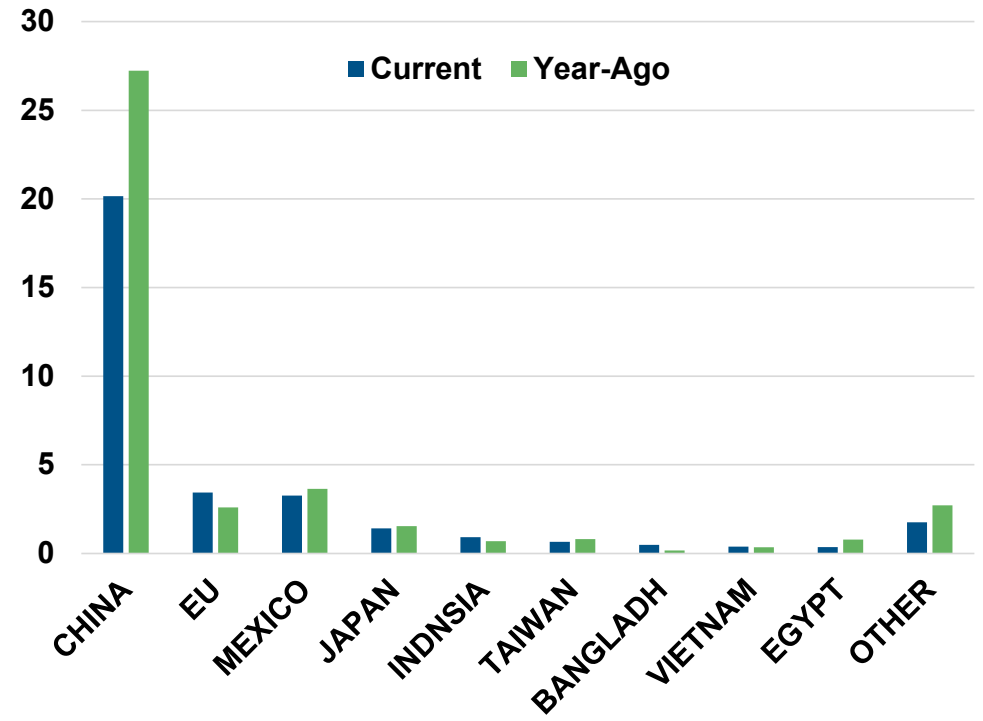
Source: USDA-FAS

Soybean Stocks Down 0.7% YoY, Exports Down 15.4% YoY

U.S. Soybean Stocks on Dec. 1 (billion bu.)

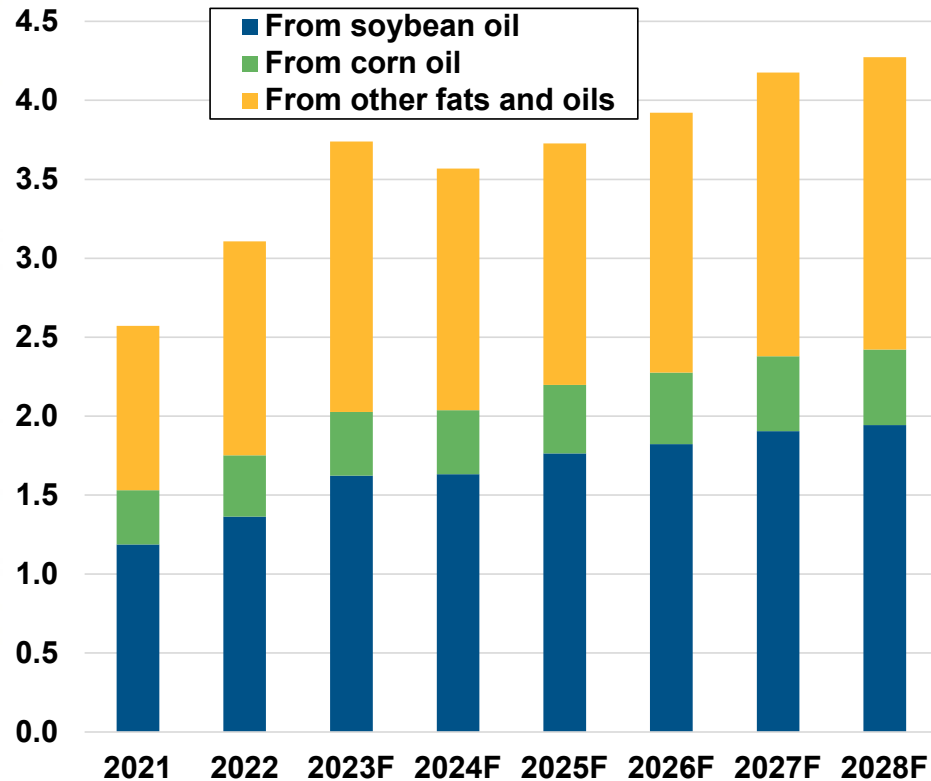


U.S. Soybean Export Commitments (MMT)

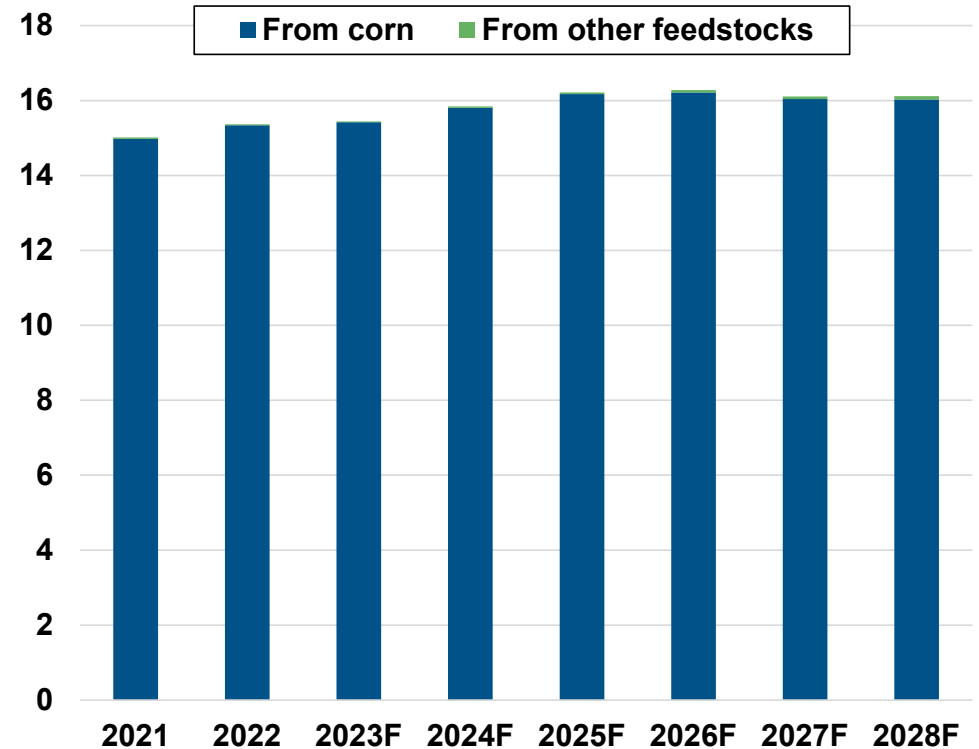


U.S. State/Federal Climate Policies are Driving Demand Shifts

U.S. Biomass-based Diesel Production (billion gal.)

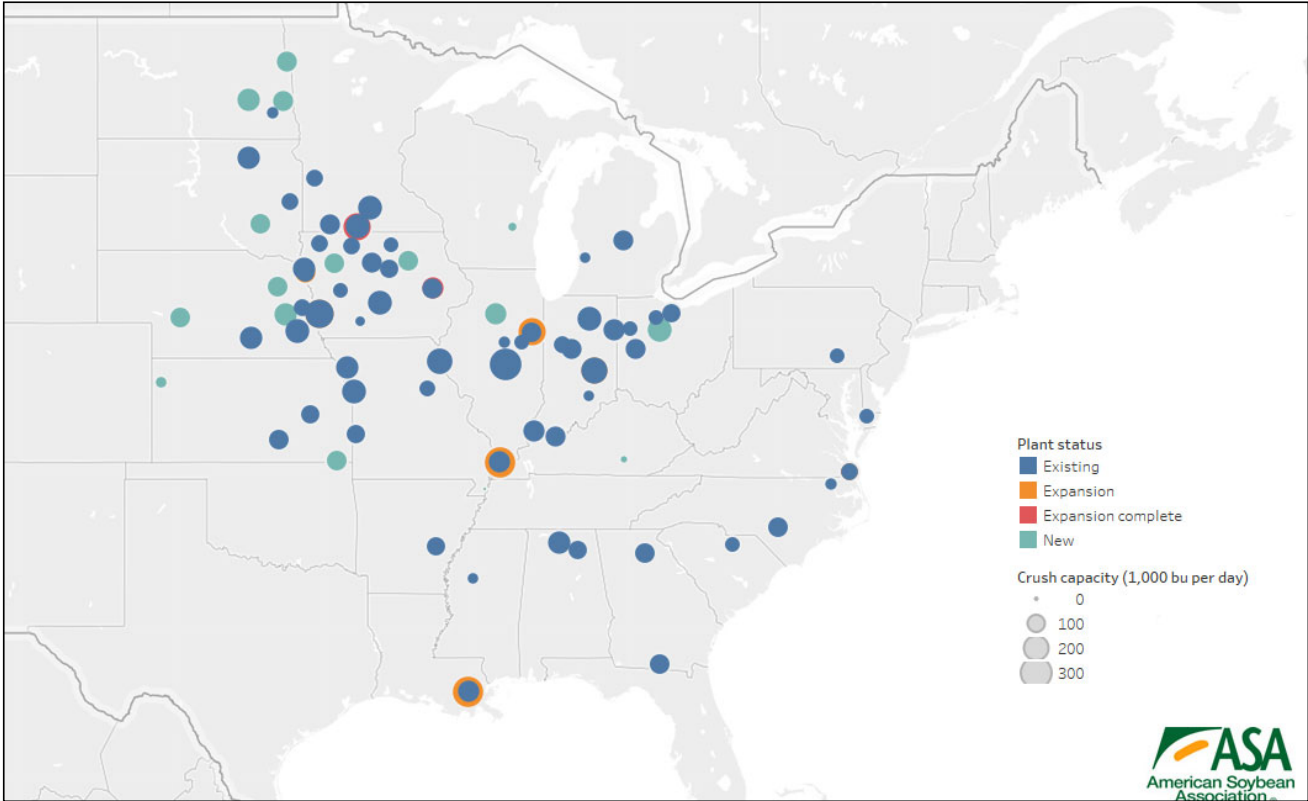


U.S. Ethanol Production (billion gal.)



Soy Crush Expansion Will Tighten Interior Basis

U.S. Soybean Crush Plants



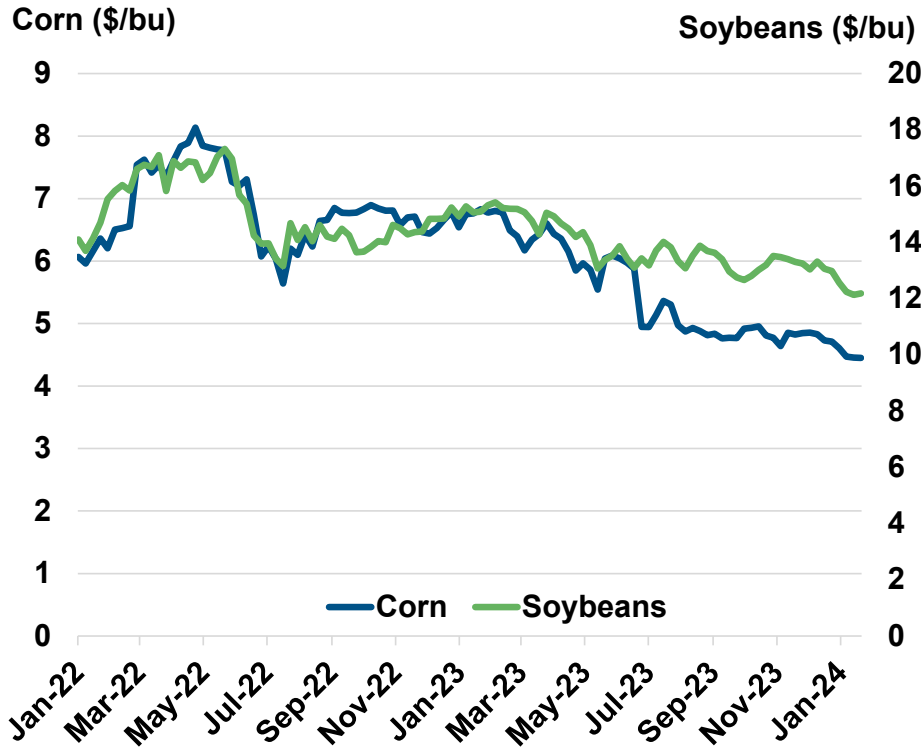
Poll Question #2

**In 2023, U.S. farmers planted 94.6 million acres of corn.
How many acres do you expect will be planted in 2024?**

- A. 91 million or less
- B. About 92 million
- C. About 93 million
- D. 94 million or more

Soybean/Corn Ratio Favors Acres Moving to Soybeans

Corn & Soybean Prices (\$/bu.)

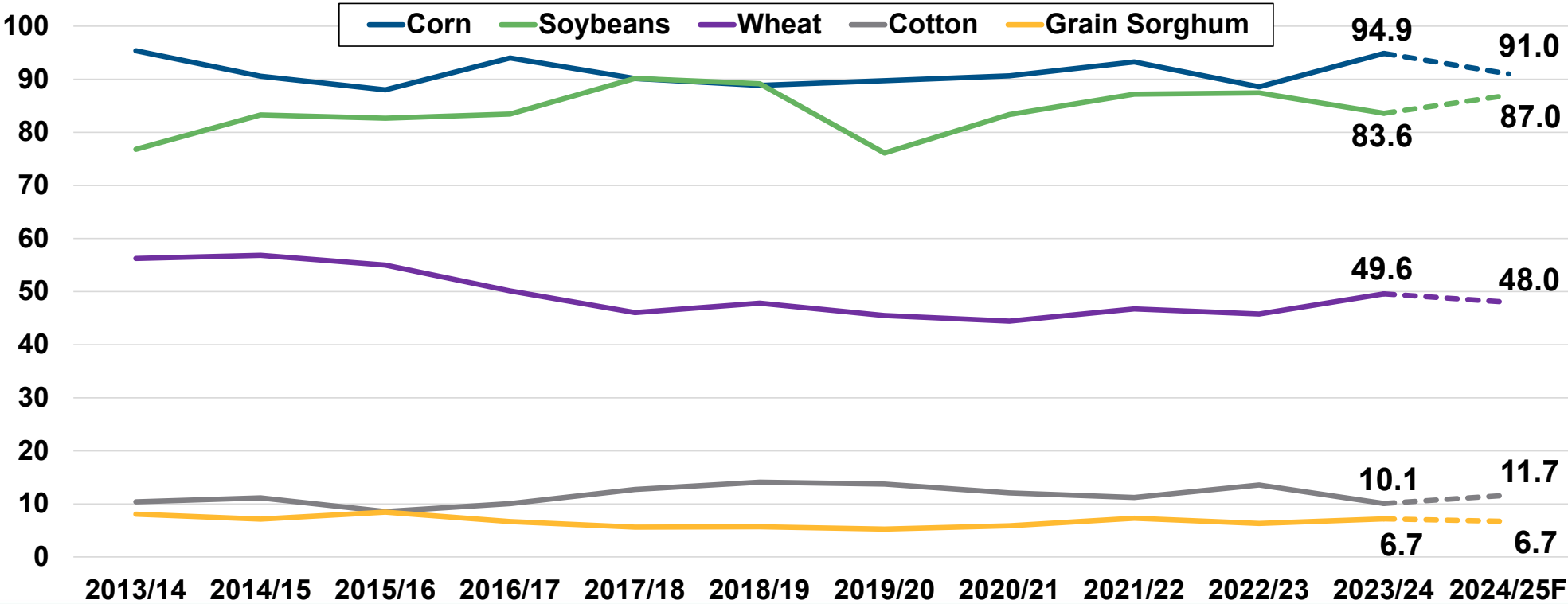


Soybean/Corn Price Ratio



Soybeans Expected to Pull Planted Acres from Corn & Wheat

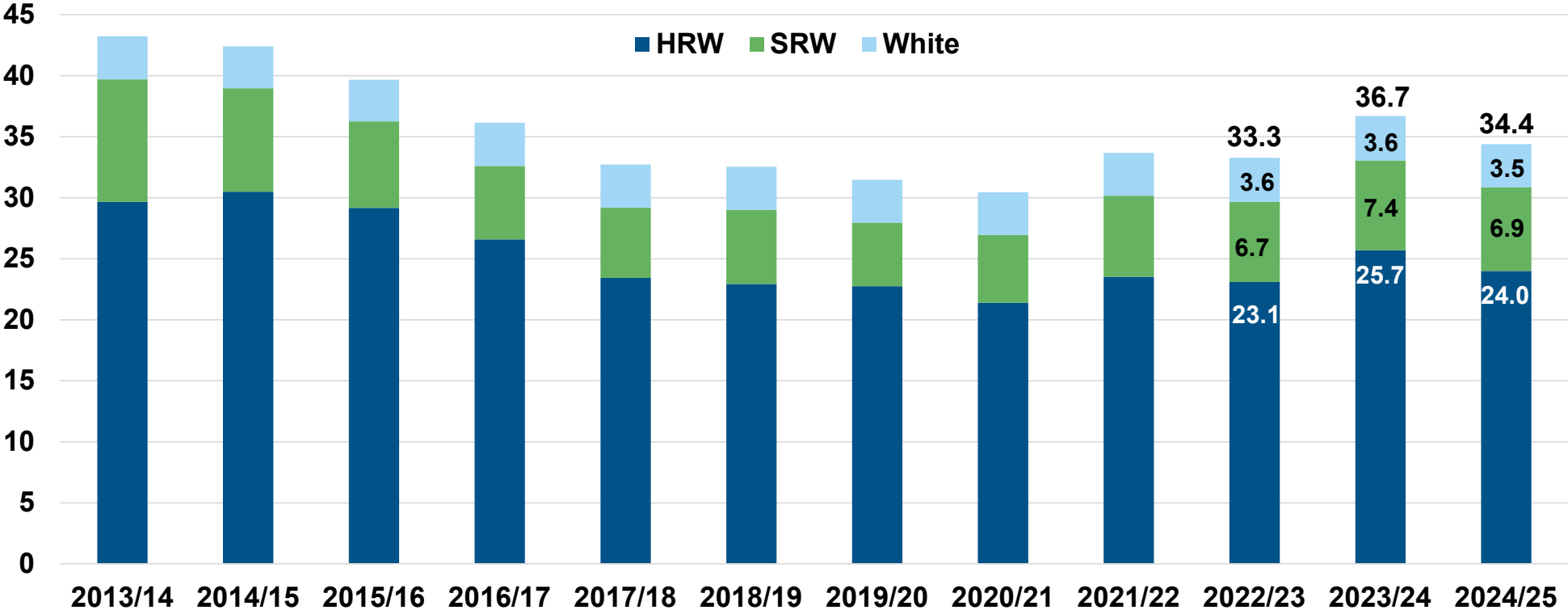
U.S. Planted Acreage (million acres)



Source: USDA-NASS; USDA-ERS Baseline Projections. Data as of Nov. 7, 2023

Winter Wheat Acreage Down 6% YoY

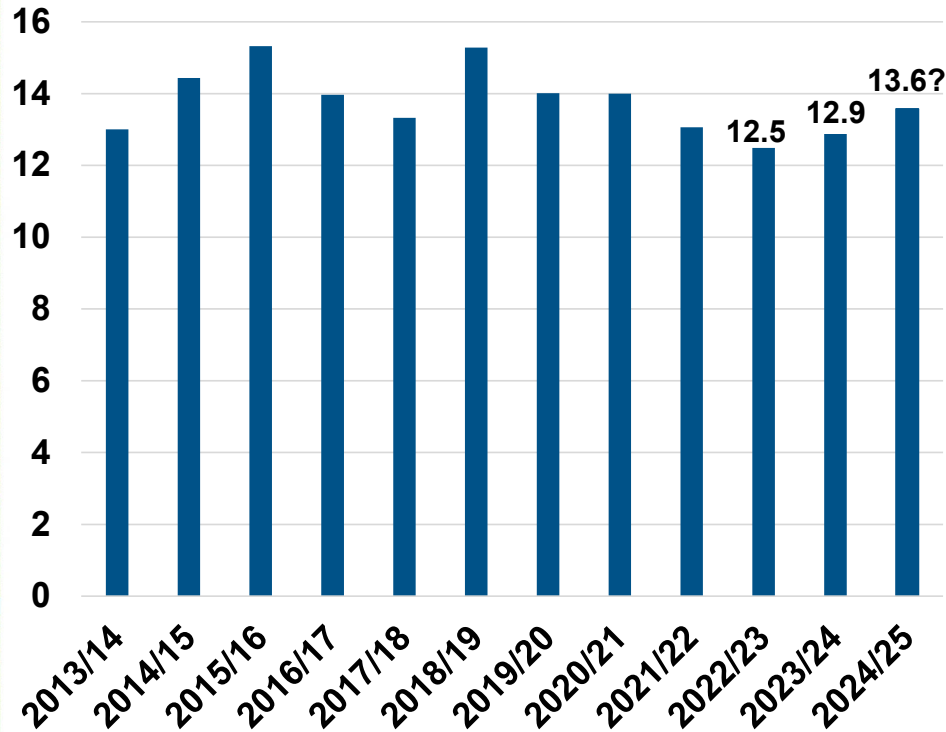
U.S. Winter Wheat Planted Acreage (million acres)



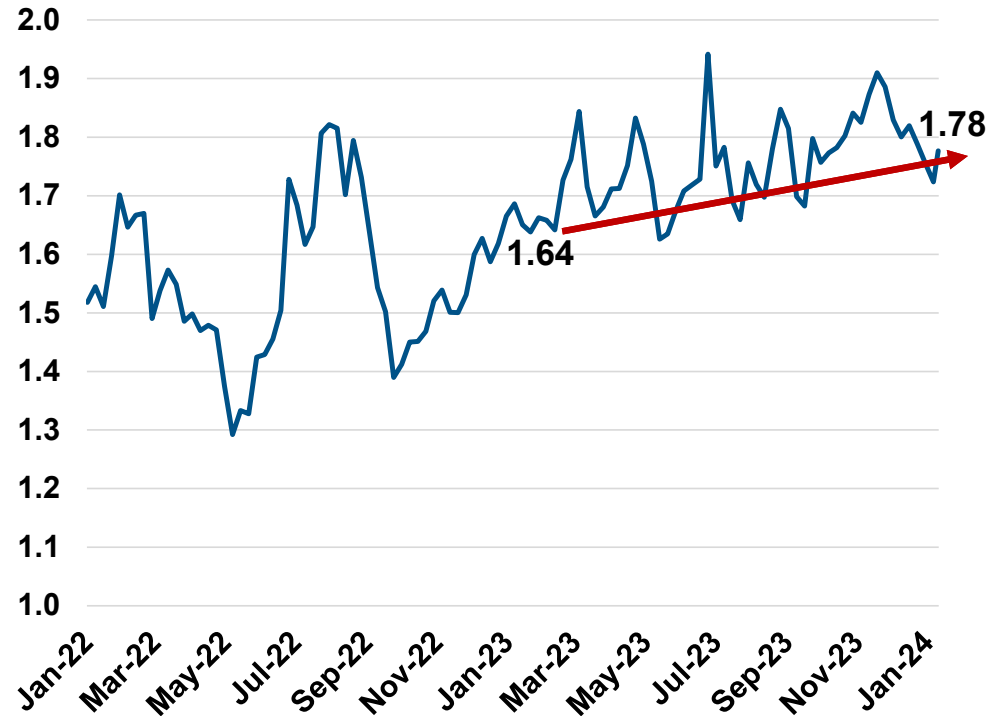
Source: USDA-NASS Winter Wheat and Canola Seedings, Jan. 12, 2024

Spring Wheat Will Compete with Soybeans for Acres

Spring Wheat Planted Acreage (Mill. Acres)

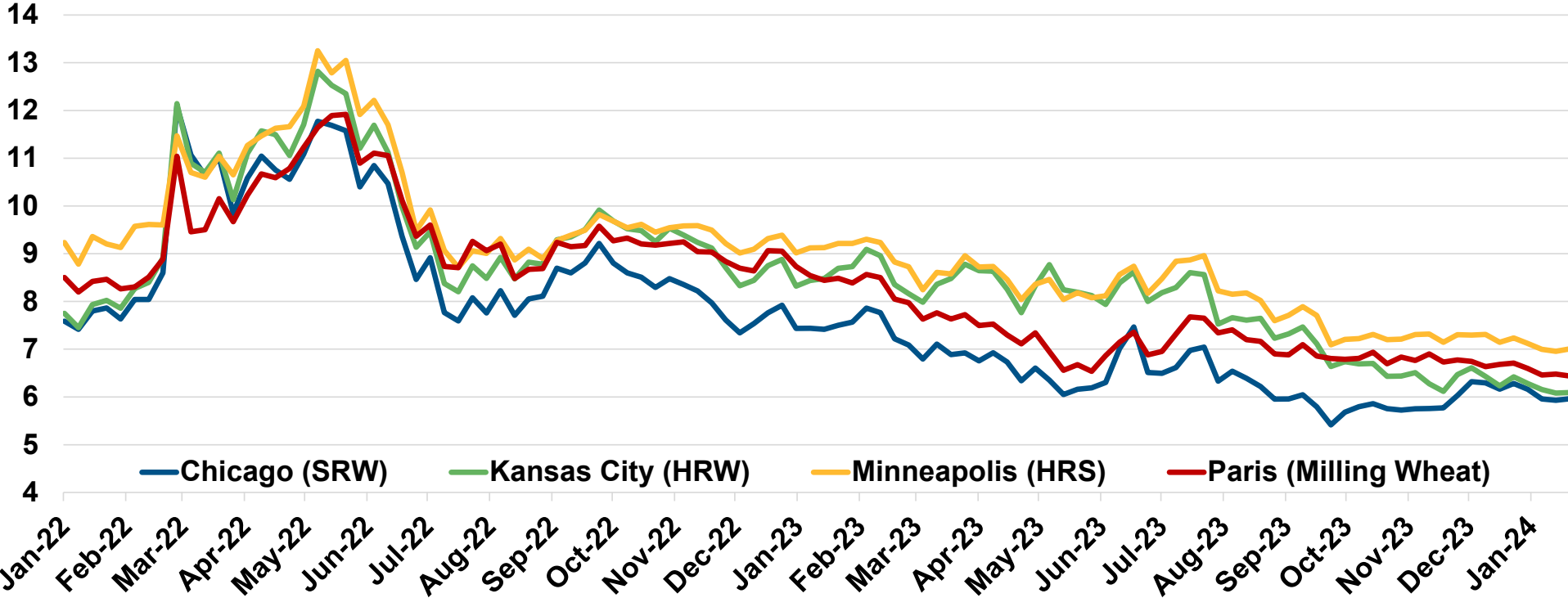


Soybean/HRS Wheat Price Ratio



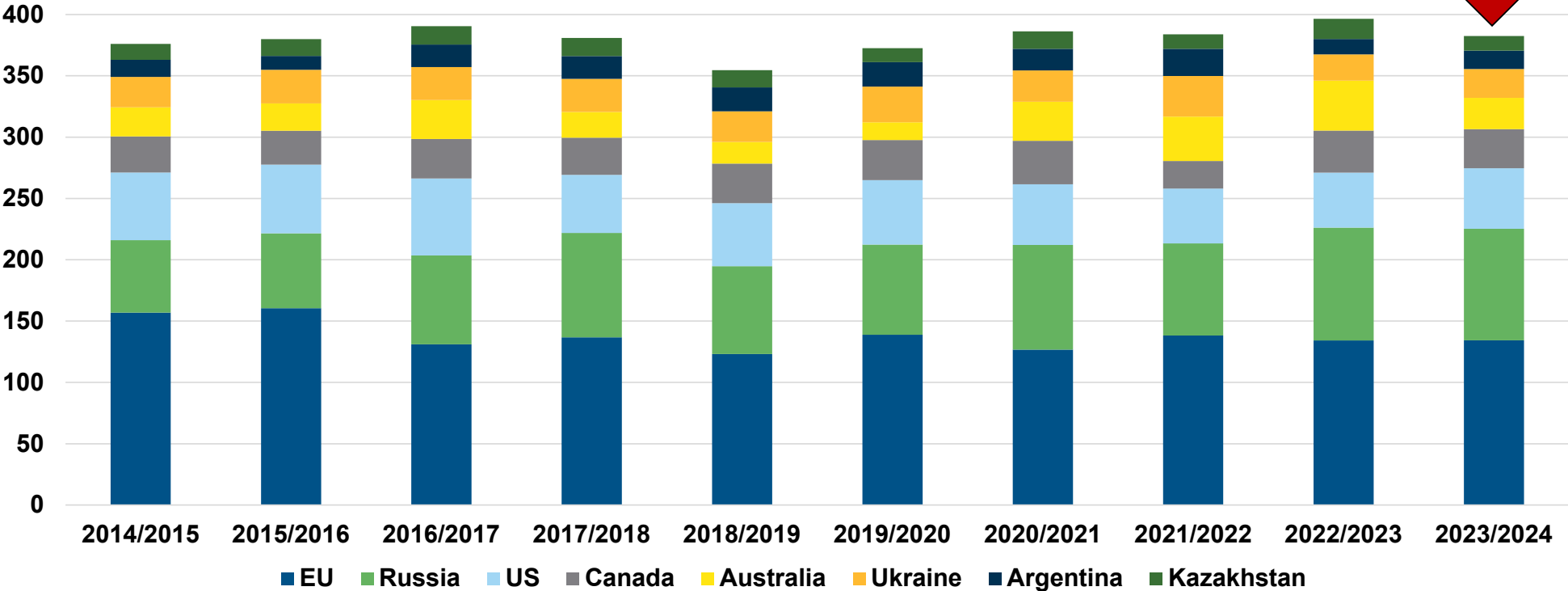
Wheat at Contract Lows, Pressured by US\$ and Corn

Wheat Prices (\$/bu.)



World Market is Not Acting Like Wheat Supplies are Tighter

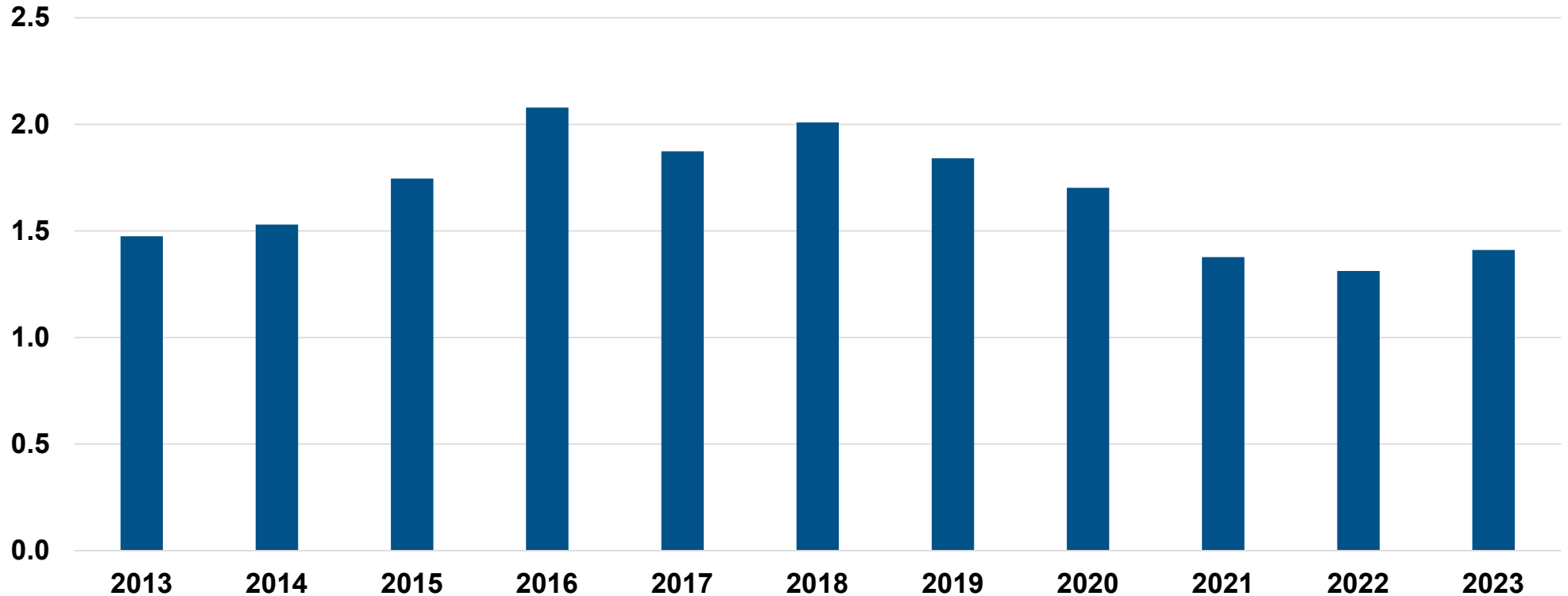
Wheat Production of Major Exporters (MMT)



Source: USDA-FAS

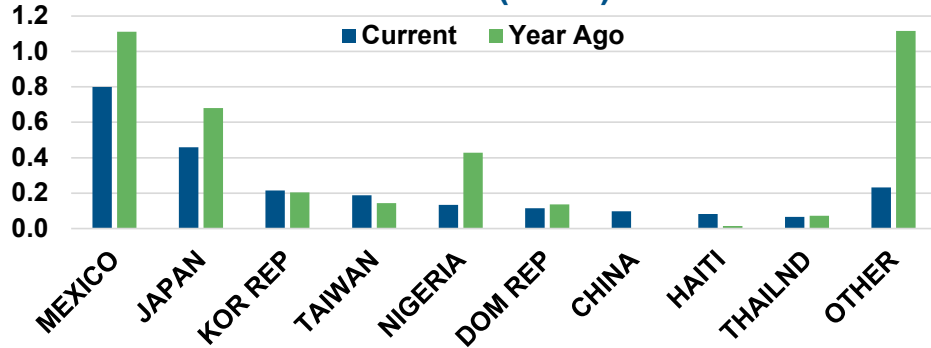
U.S. Wheat Inventories Up 7.5% YoY

U.S. Wheat Stocks on Dec. 1 (billion bu.)

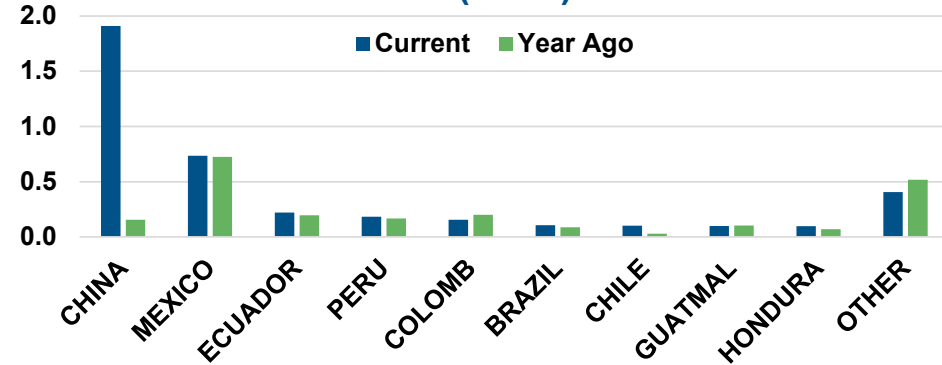


U.S. Wheat Exports up 1.4% YoY

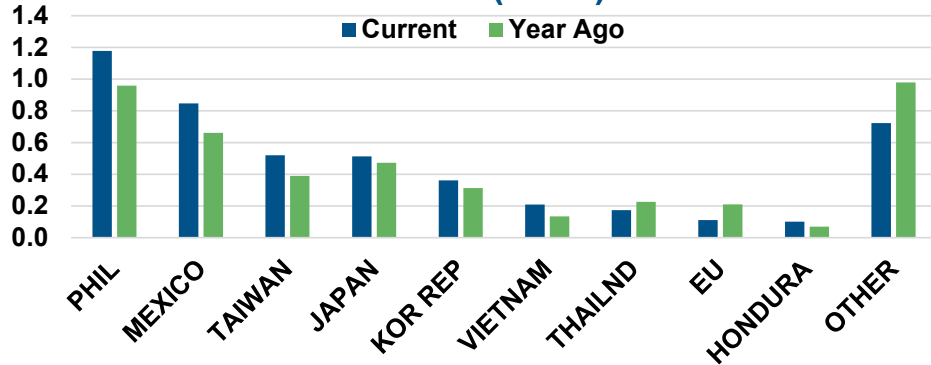
HRW (MMT)



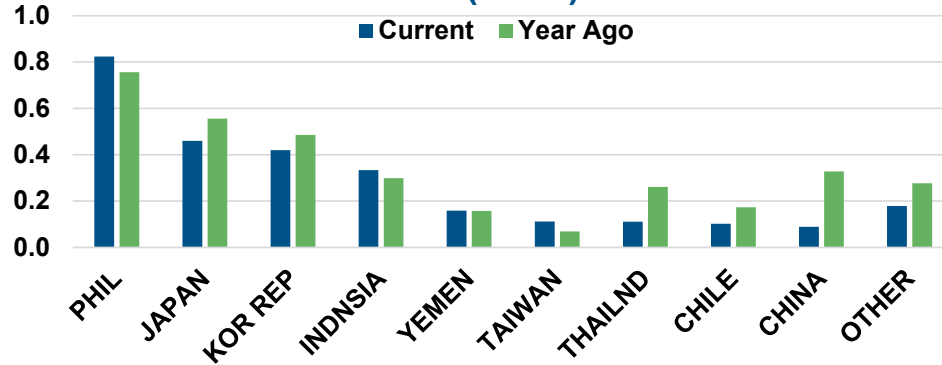
SRW (MMT)



HRS (MMT)

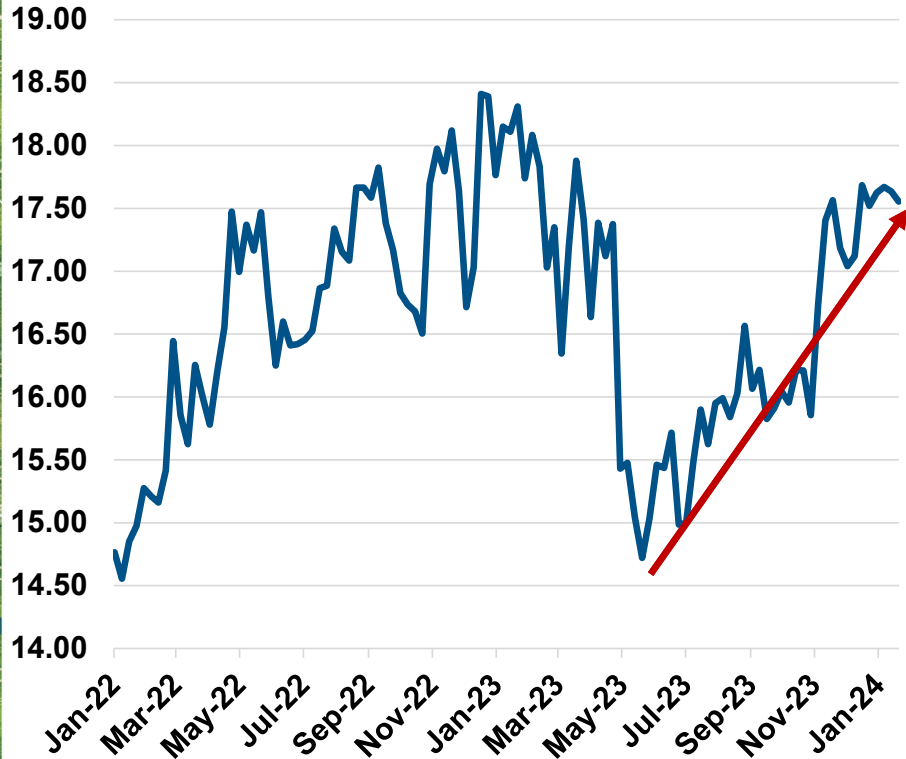


White (MMT)

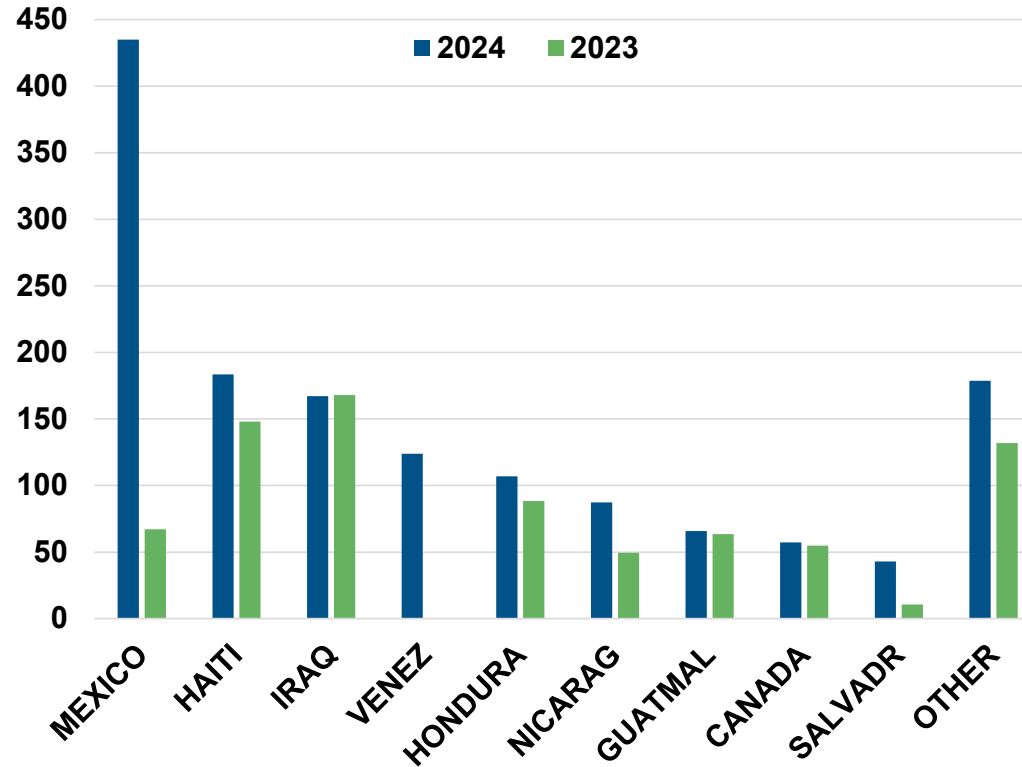


U.S. Rice Prices Climbing on Strong Export Demand

Rough Rice (\$/cwt)



Long-Grain Rice Export Sales (1k tons)

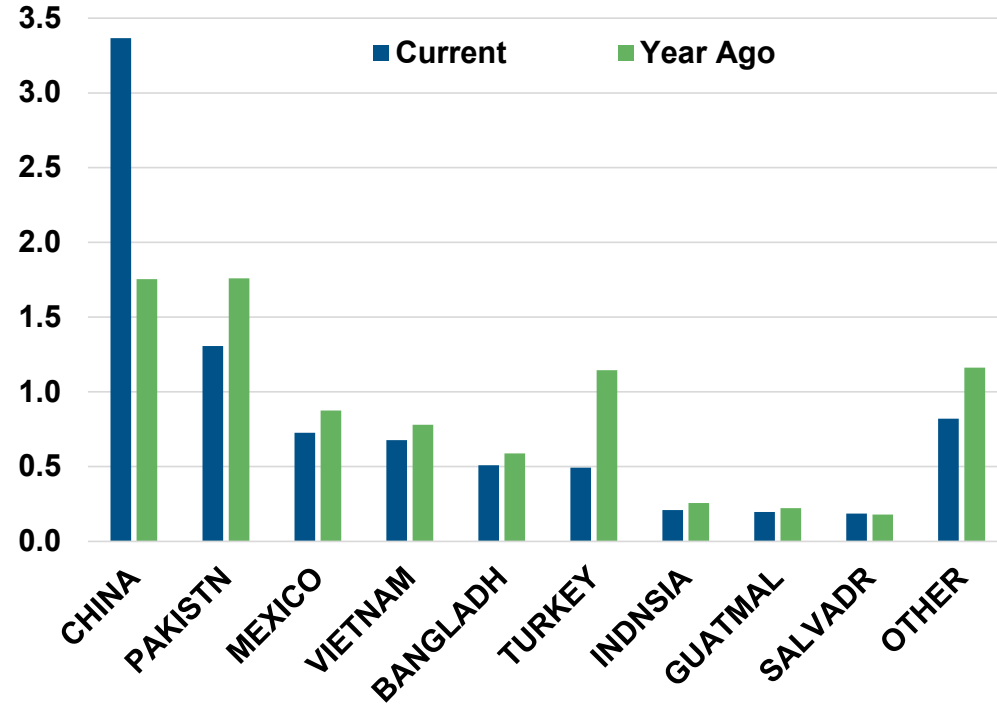


Slowing Economy Dragging on Cotton Prices

Cotton Prices (cents/lb)

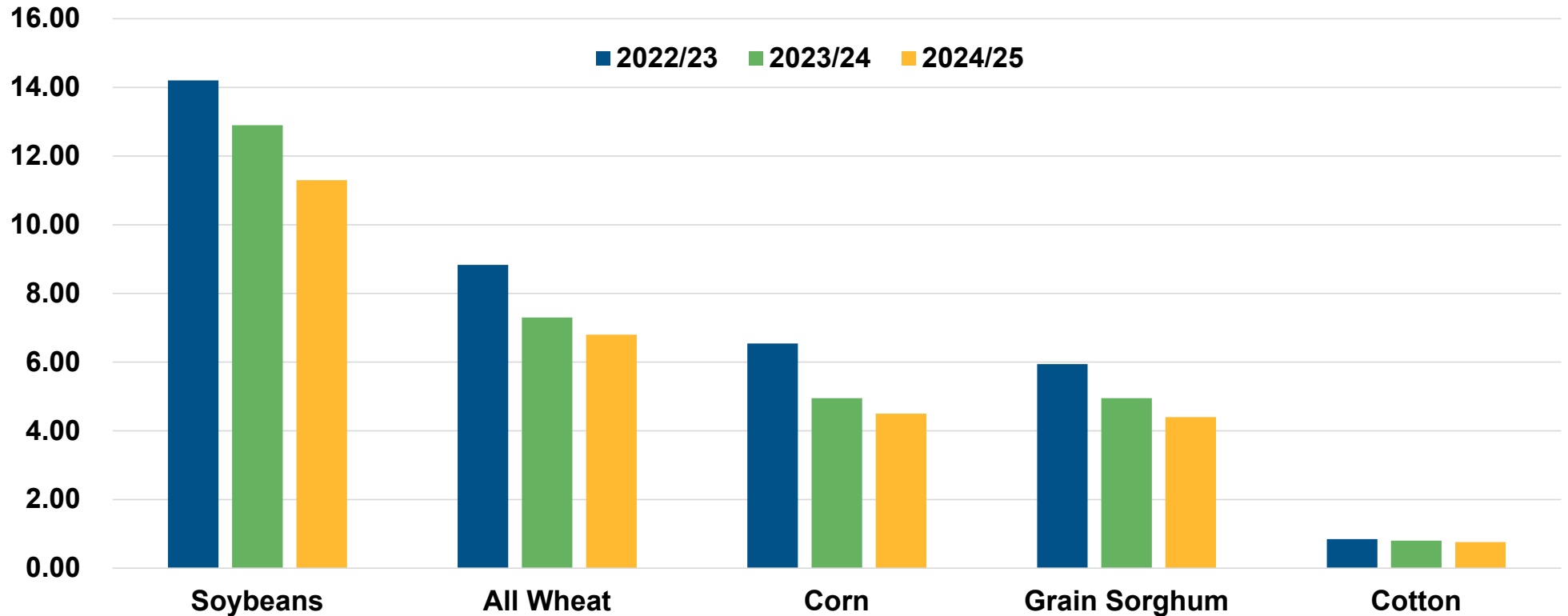


U.S. Cotton Export Sales (million bales)



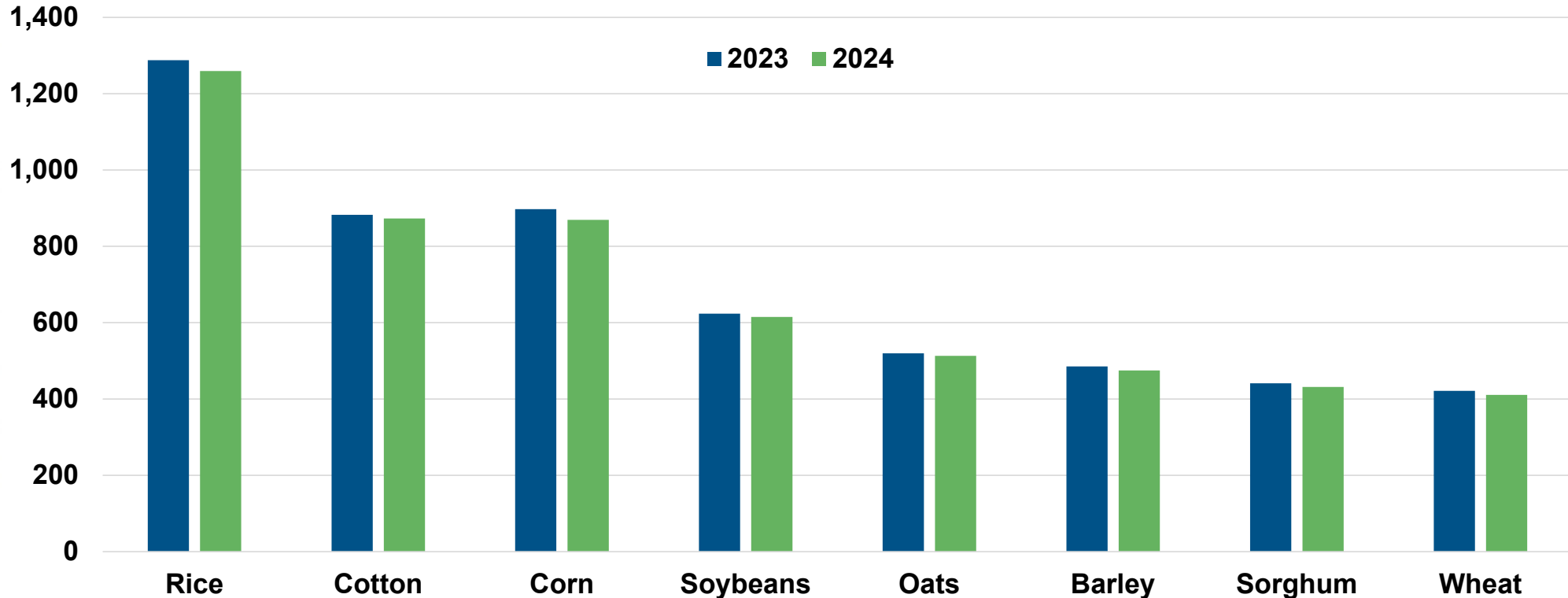
USDA Forecasts Lower Prices for All Commodities in 2024

Average Farm Prices (\$/bu. and cents/lb.)



Farm Production Costs Expected to Fall Slightly in 2024

Cost of Production Forecasts (\$/acre)



Fertilizer, Chemical, Interest & Land Costs Seen Falling in 2024

Rising vs Falling

	<u>Corn</u>		<u>Soybeans</u>		<u>Wheat</u>		<u>Sorghum</u>	
	2023	2024F	2023	2024F	2023	2024F	2023	2024F
<u>Operating costs</u>								
Seed	108.96	109.70	70.38	70.86	15.70	15.81	14.86	14.96
Fertilizer	186.73	160.12	52.86	45.33	78.60	67.40	65.98	56.58
Chemicals	60.88	55.90	52.88	48.55	23.09	21.20	41.69	38.28
Custom operations	34.30	35.07	15.34	15.68	16.68	17.05	21.13	21.60
Fuel, lube, and electricity	28.20	29.73	20.07	21.16	15.32	16.16	13.33	14.05
Repairs	46.67	46.94	35.86	36.07	31.34	31.53	31.64	31.83
Other variable expenses	0.27	0.27	0.02	0.02	0.95	0.97	0.14	0.15
Interest on operating capital	11.79	10.29	6.26	5.59	4.60	4.00	4.78	4.17
Total, operating costs	477.79	448.02	253.67	243.26	186.29	174.12	193.55	181.62
<u>Allocated overhead</u>								
Hired labor	4.28	4.37	6.04	6.17	4.90	5.00	4.58	4.67
Opportunity cost of unpaid labor	29.32	29.91	20.97	21.39	20.91	21.33	19.58	19.97
Capital recovery of machinery and equipment	159.07	160.97	135.60	137.22	123.80	125.27	132.17	133.75
Opportunity cost of land (rental rate)	183.65	182.47	169.82	168.73	66.04	65.62	62.65	62.25
Taxes and insurance	17.74	18.21	14.69	15.08	7.76	7.96	11.57	11.87
General farm overhead	25.43	25.58	22.84	22.97	11.35	11.42	16.99	17.09
Total, allocated costs	419.49	421.50	369.96	371.55	234.77	236.61	247.54	249.61
Total costs (\$/acre)	897.28	869.52	623.63	614.81	421.05	410.73	441.09	431.22

In Summary

- The strong U.S. dollar remains a bearish headwind to exports.
- Despite Brazil's weather complications, South America is expected to harvest record corn and soybean crops.
- Chinese demand for ag commodities is slowing, and is shifting to South America.
- Although wheat is tighter globally YoY, it is competing with ample corn for feed.
- Soybeans are set to pull acres from corn and wheat as demand for renewable diesel grows.
- Rice is the outlier to the downtrend in ag commodities as export demand grows.
- Cotton prices are balancing slowing demand and tight supply.

Questions?