



Commodity Markets In Tangled Times

Phil Plourd • Western WI Ag Lenders Conference

January 6, 2022

ever ag

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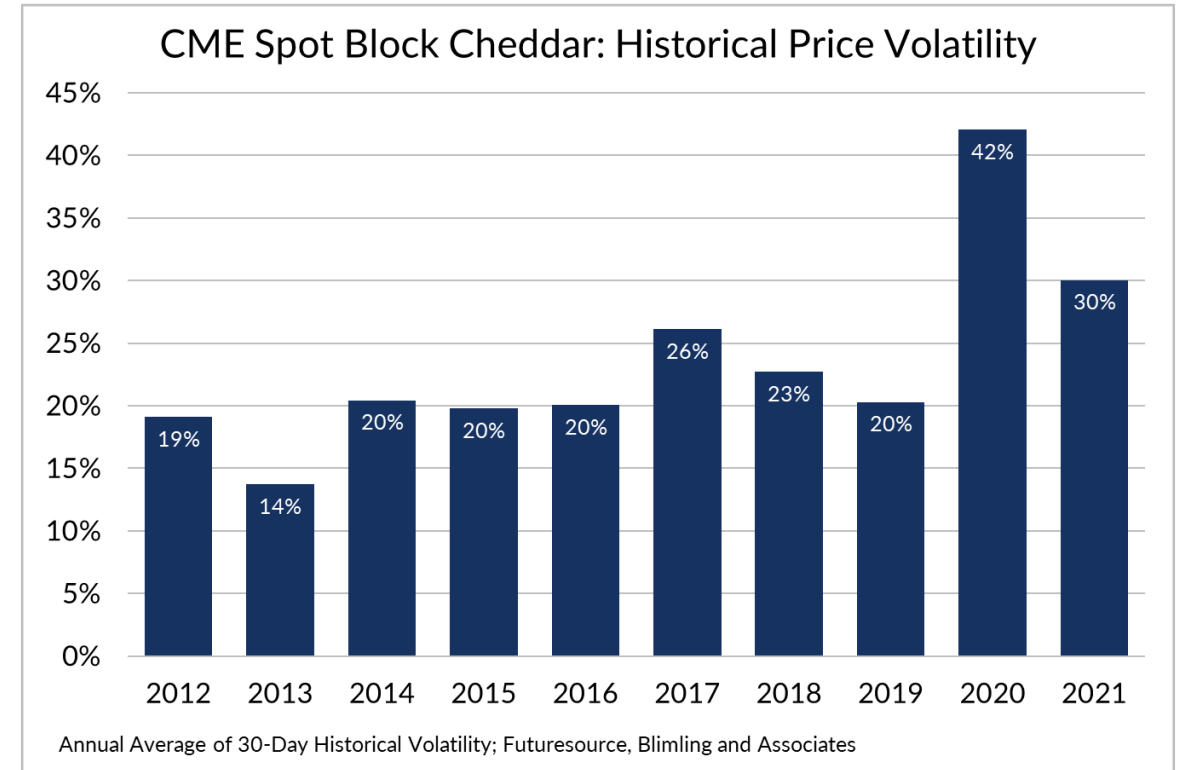
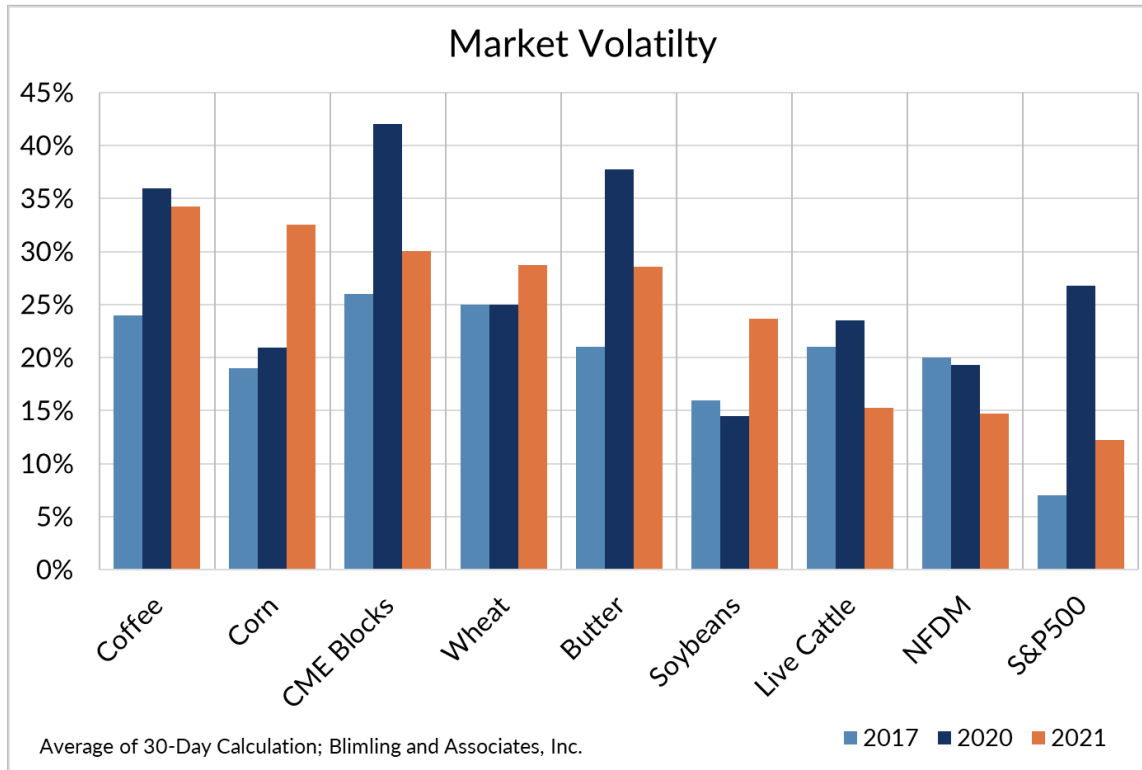


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Volatile Markets for Volatile Times



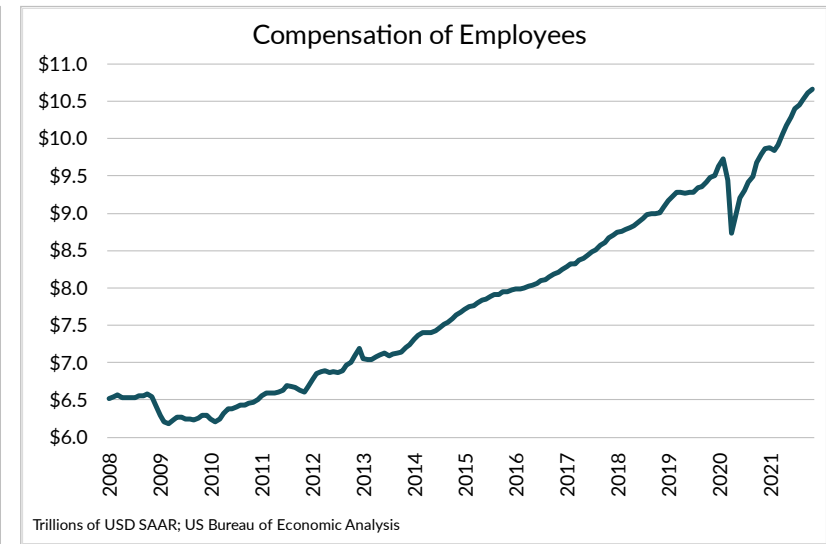
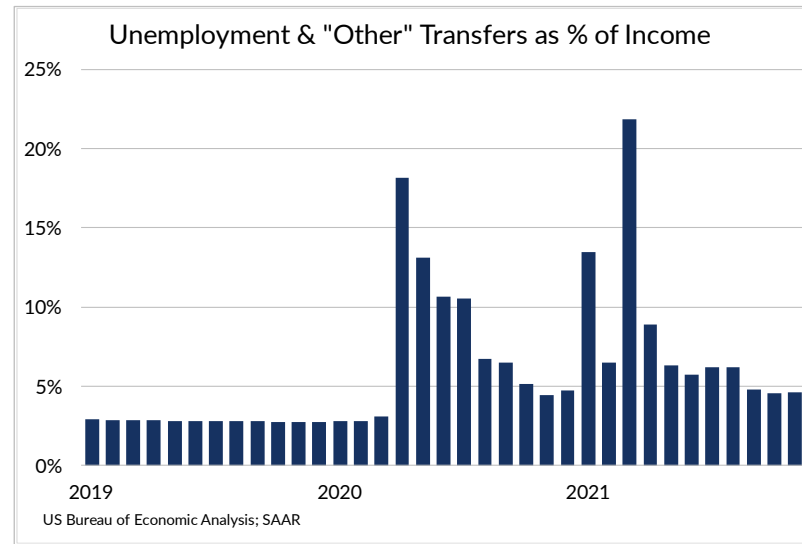
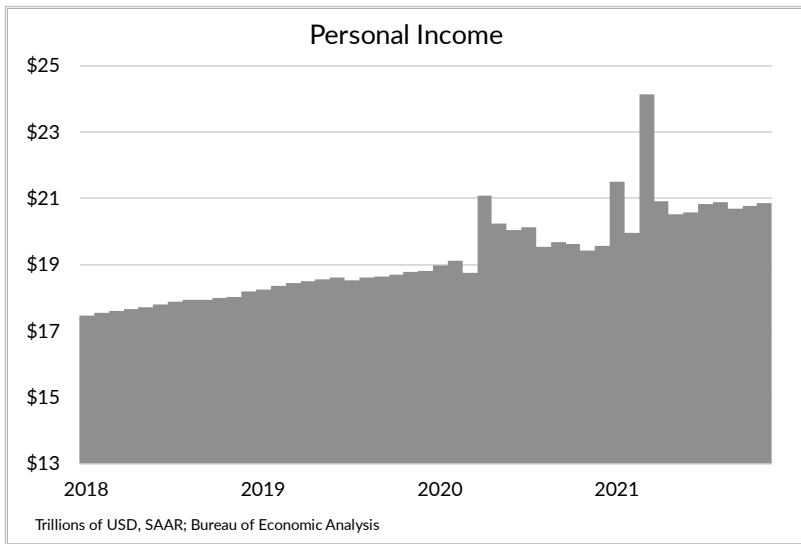
- Do you remember the comparative calm of 2016 or 2017? Neither do we.
- Broad array of markets seeing tremendous volatility -- with dairy among the leaders.
- And price volatility is only part of the story.

Supply Chains: Sensitive and Stressed

- Consumers in a strong position, generating more and more demand for stuff – lots of it imported!
- But that consumer demand features shifting channels and geography.
- Freight costs sharply higher – assuming you can find drivers and/or containers.
- Labor: hard to find, hard to pay, hard to keep.
- World has gone from “just in time” to “just in case” inventory management.

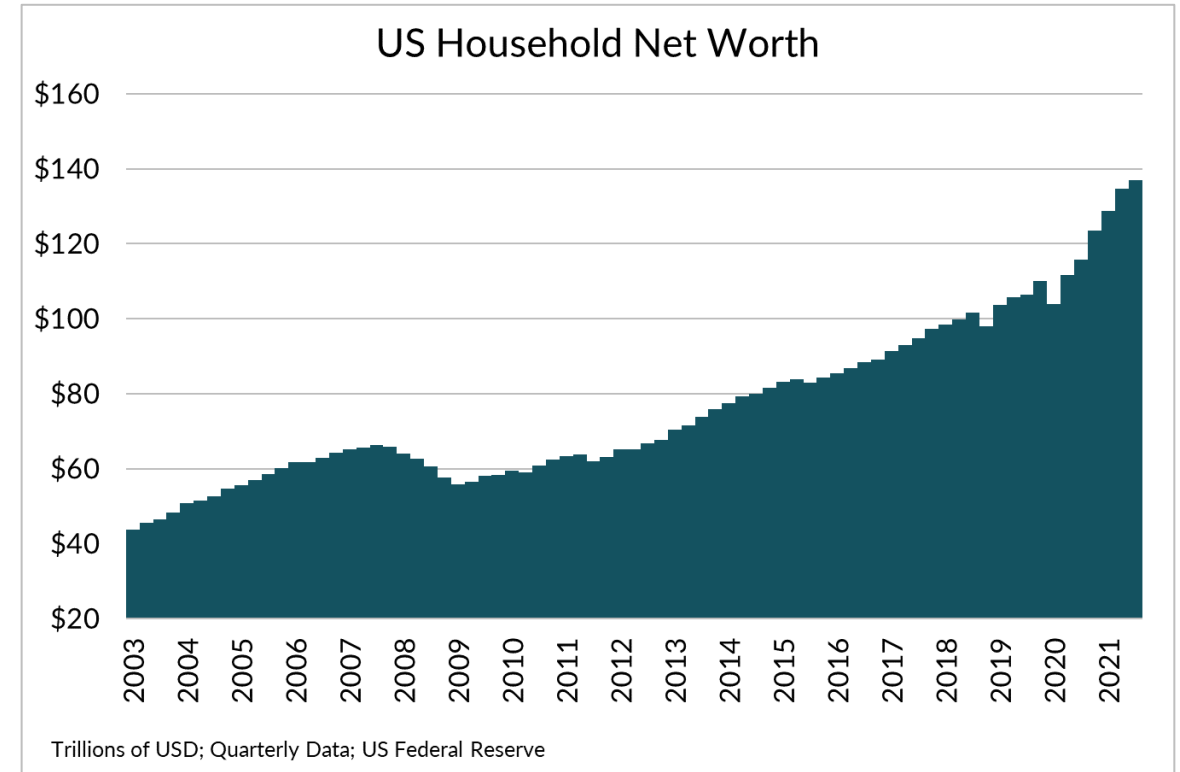
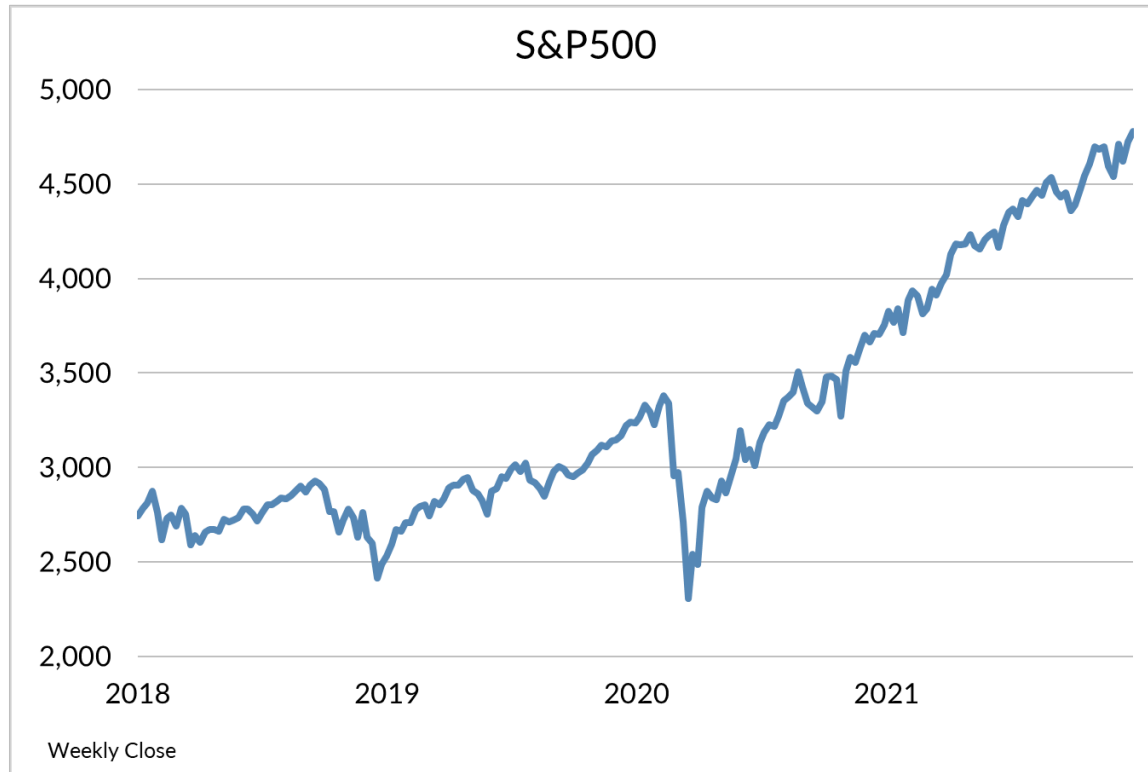


Remarkable Resilience – With Help



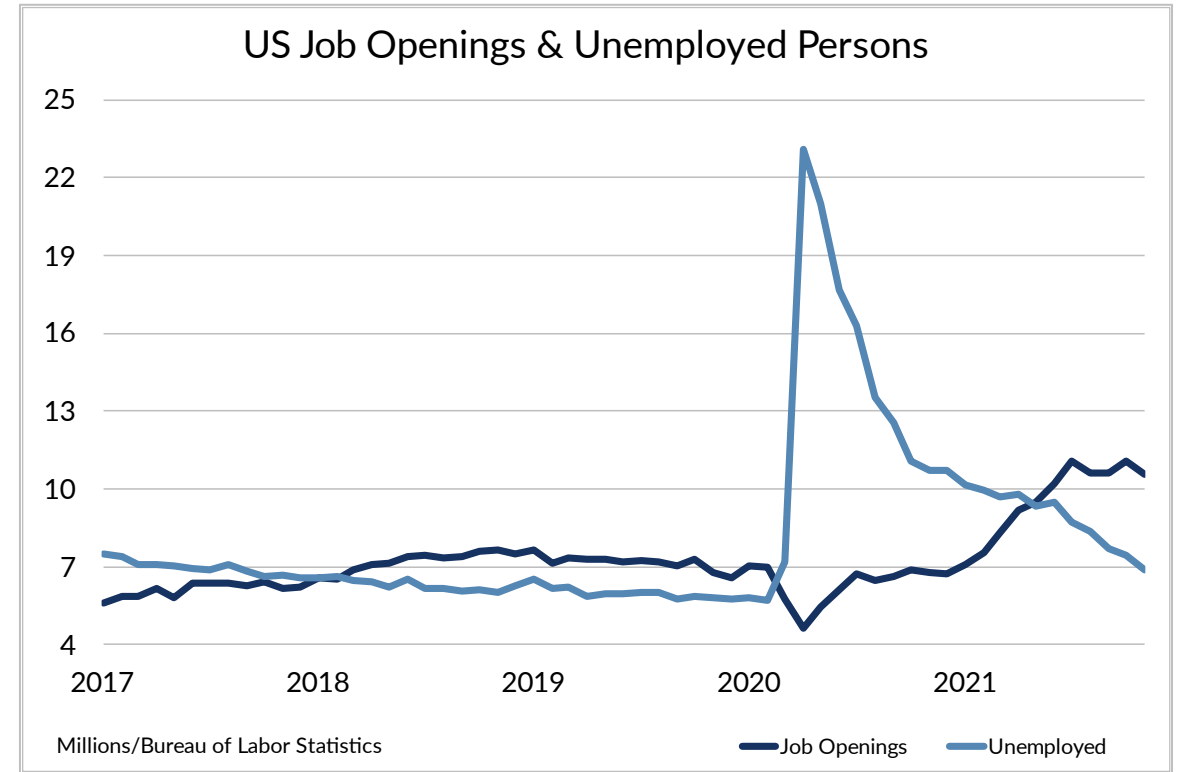
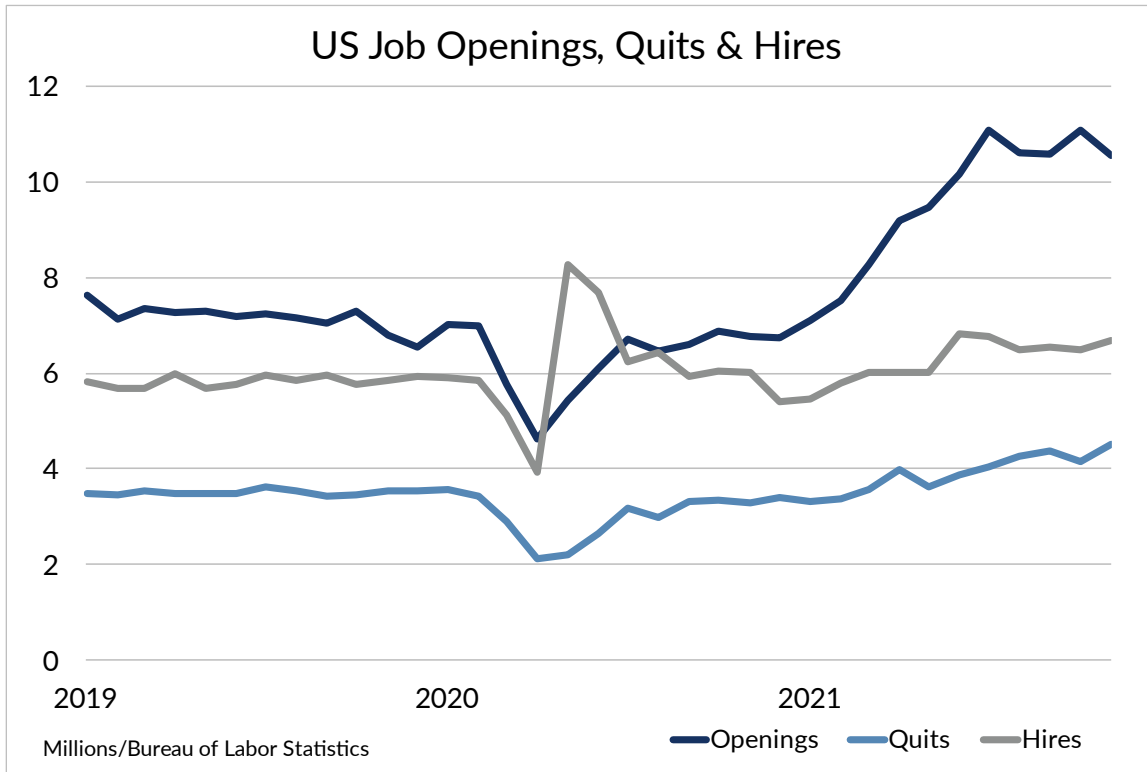
- Tight labor conditions mean rising wages. Add in government assistance and consumers have income.
- We've seen three waves of massive government support since March 2020.
- Wages in 2021 are growing at the fastest rate in 35 years, with average hourly earnings for nonsupervisory employees reaching \$25.60 during the first nine months, up 6% from 2020 and +9% versus 2019.

Rising Wealth



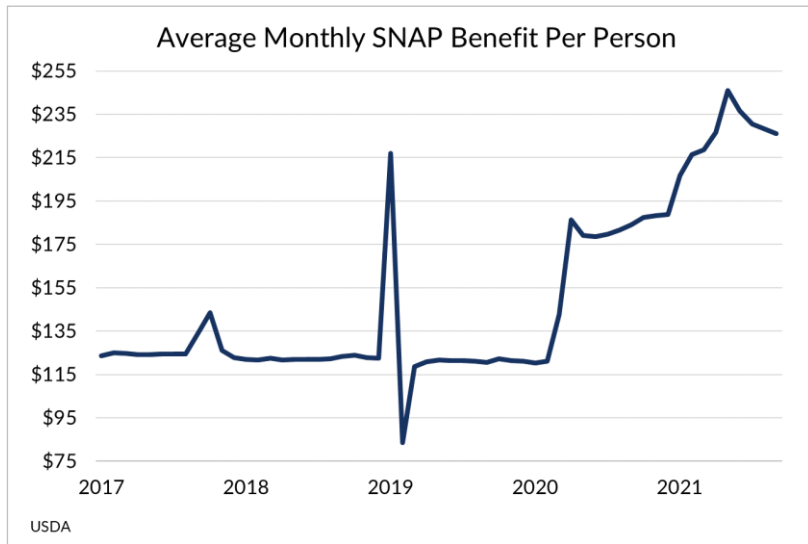
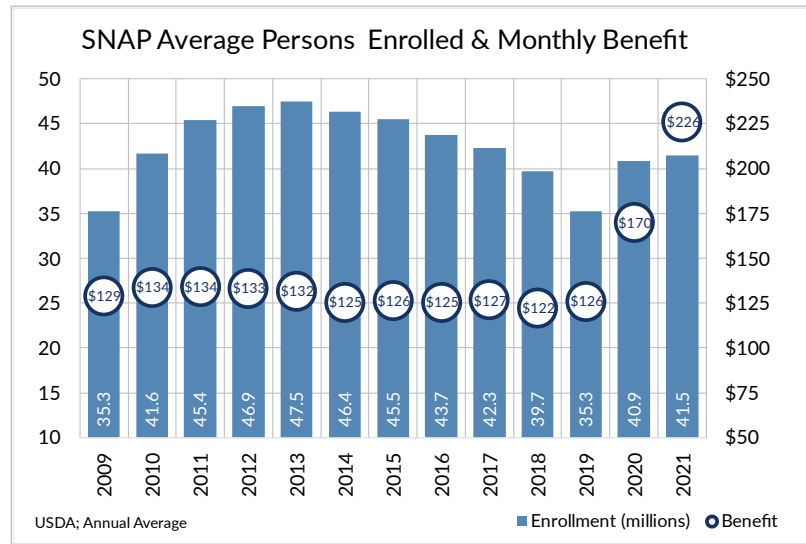
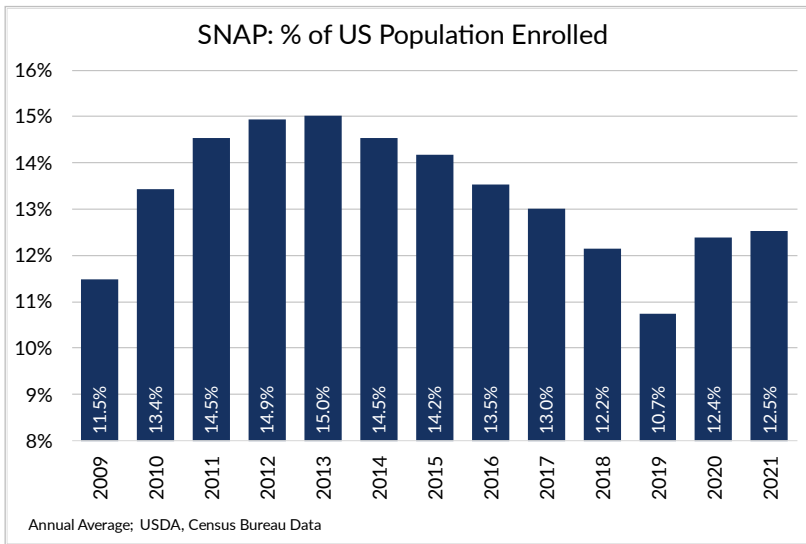
- US equity markets finished at all-time highs.
- Household net worth continued to climb in the third quarter – up 18% year-over-year.

Employment: More Jobs Than Workers



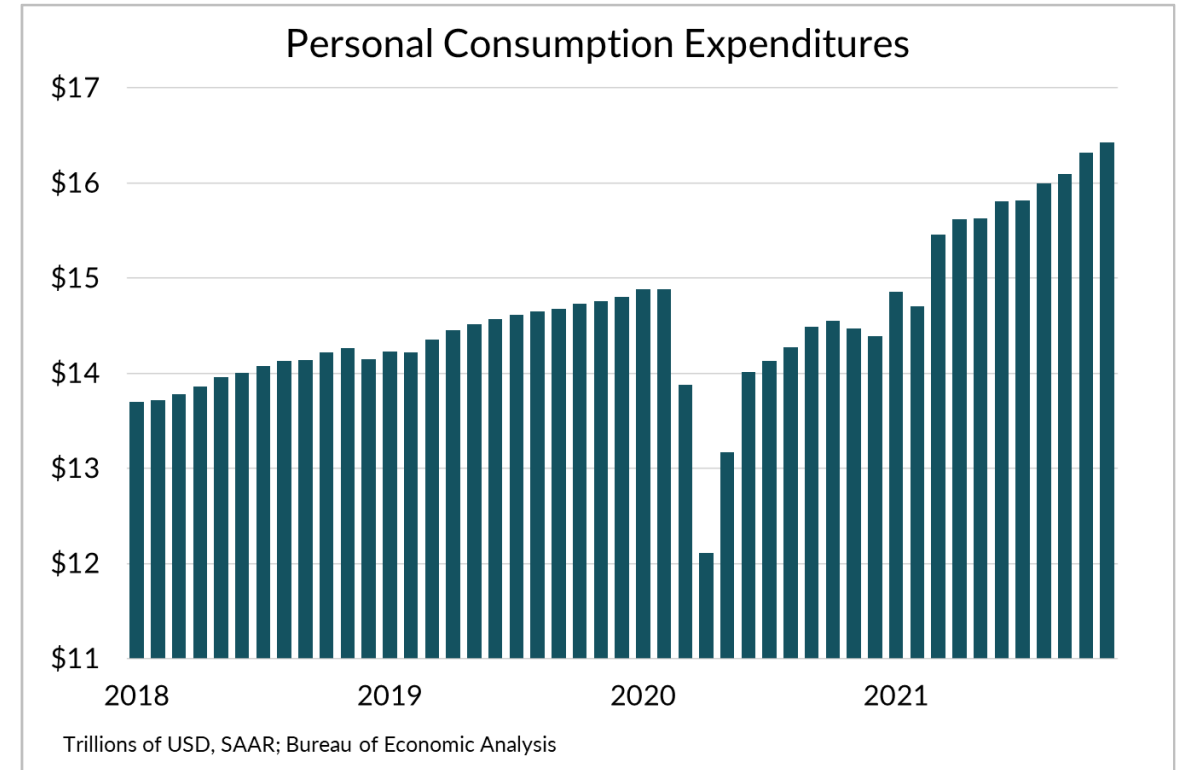
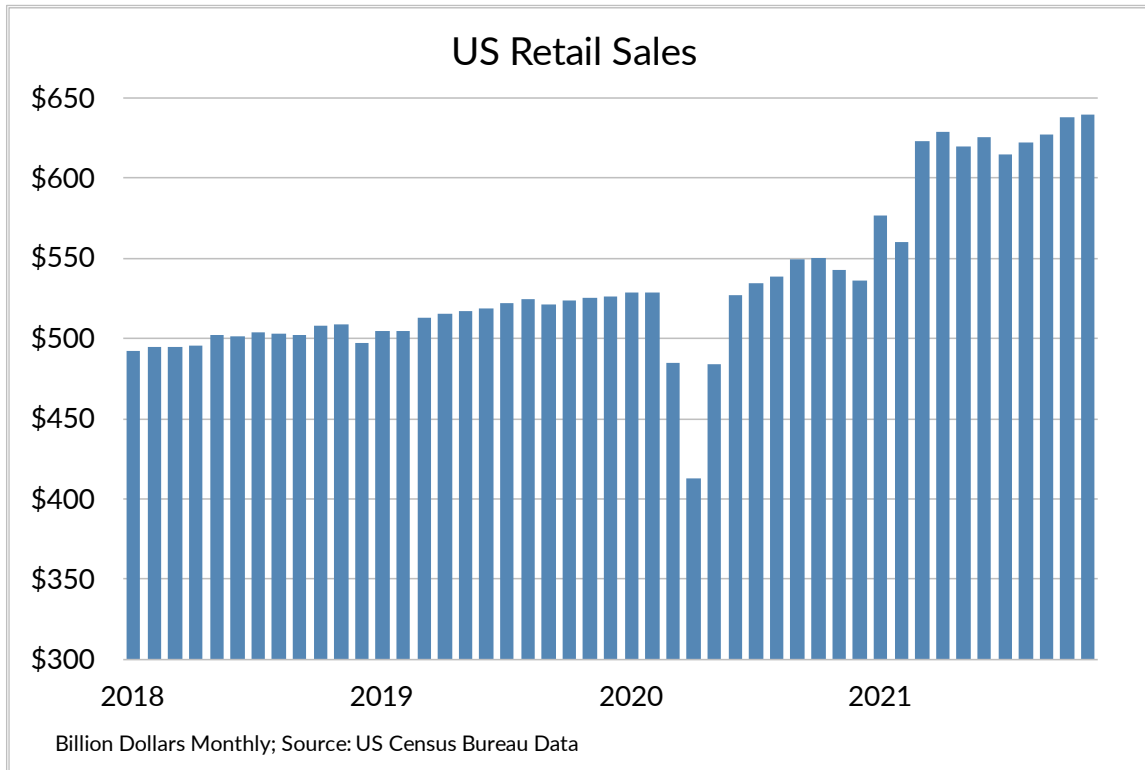
- A record number of people quit their jobs in November (4.5 million).
- We have more job openings than unemployed people (10.6 million vs 6.9 million in November).

Expanding Food Aid



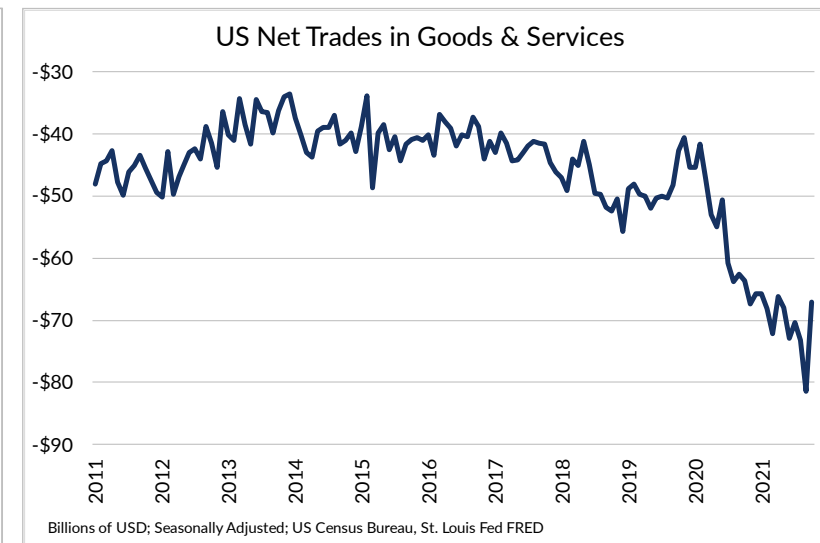
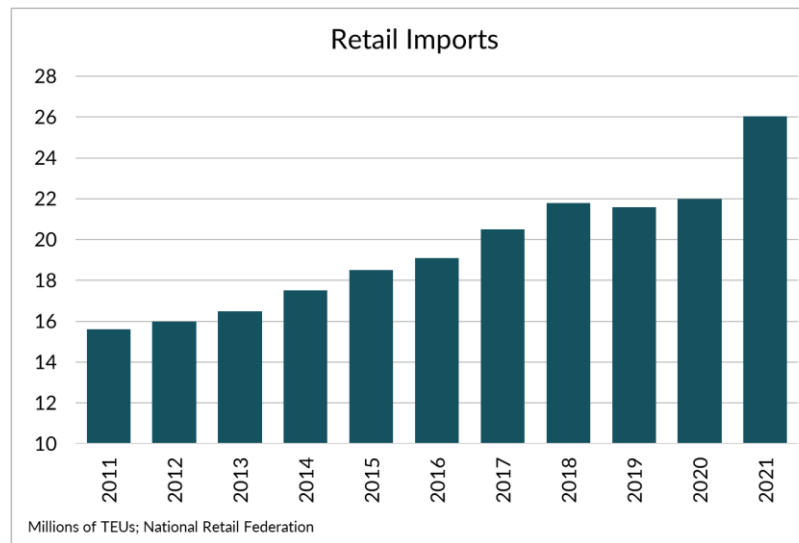
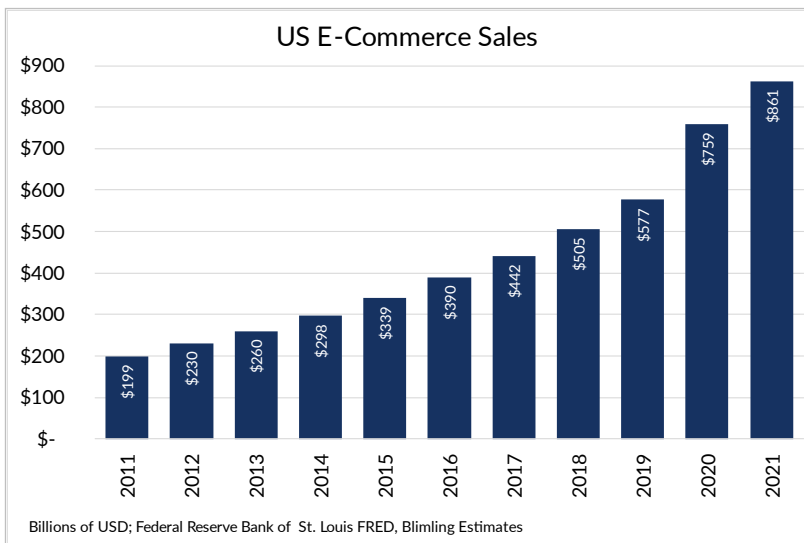
- Food aid was also up for 2021, with SNAP benefits running about \$100 per month per person above 2019 levels. Some of the changes are now permanent (\$157 versus \$127).
- Farm Credit East says >13% of SNAP expenditures go to dairy products.

Spending Is Up



- People have money.
- People are spending money.
- Retail sales up 19% versus 2020 and up 19% versus 2019.

We Import Lots of What We Buy!



- Ecommerce sales continue to accelerate – up 32% in 2020 and 10-15% in 2021.
- Retail imports up 18% in 2021 versus 2020 and up 63% over the past 10 years.
- US net trade in goods and services slid into 2019 before recovering and crashing in 2020. Bottom line: lots more stuff coming in than leaving.

Freight Touches Everything!

90%

of the world's goods are transported by water

1,500

miles it takes on average to move food from farm to plate in the United States

1,800,000

heavy and tractor-trailer truck drivers in the US May 2020

5,371

number of container ships in the world fleet in 2020, up 8% from 2011

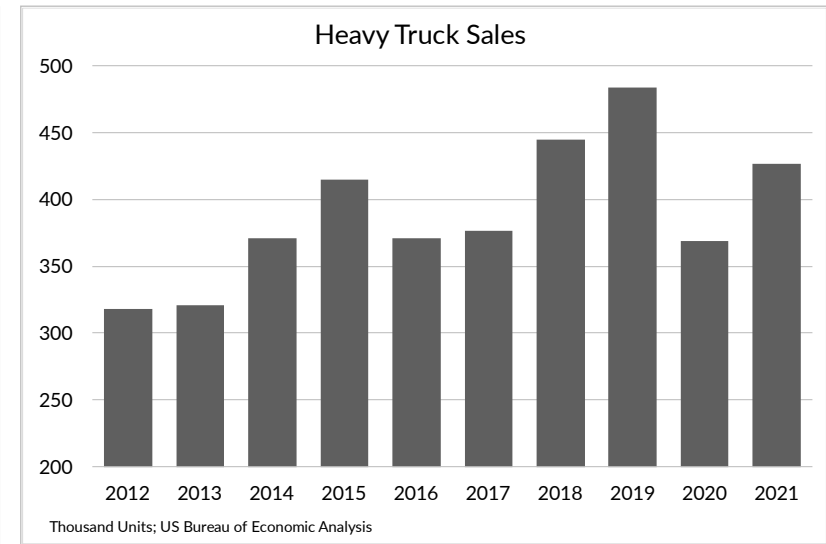
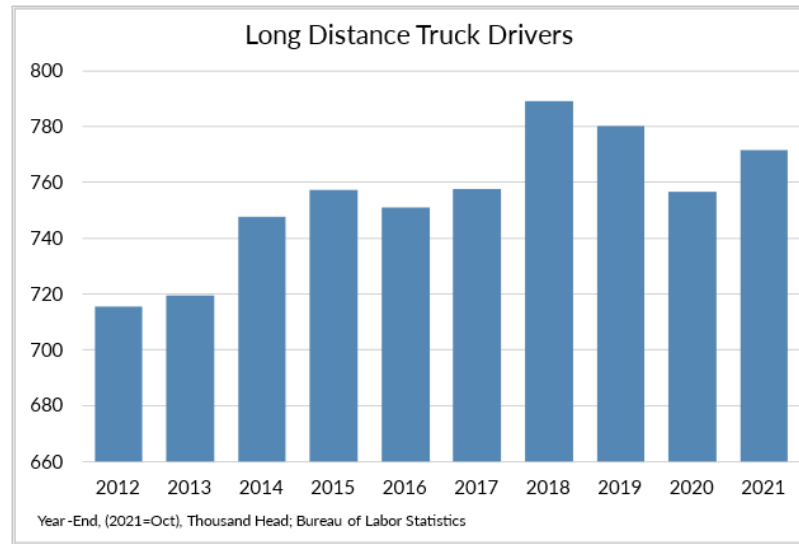
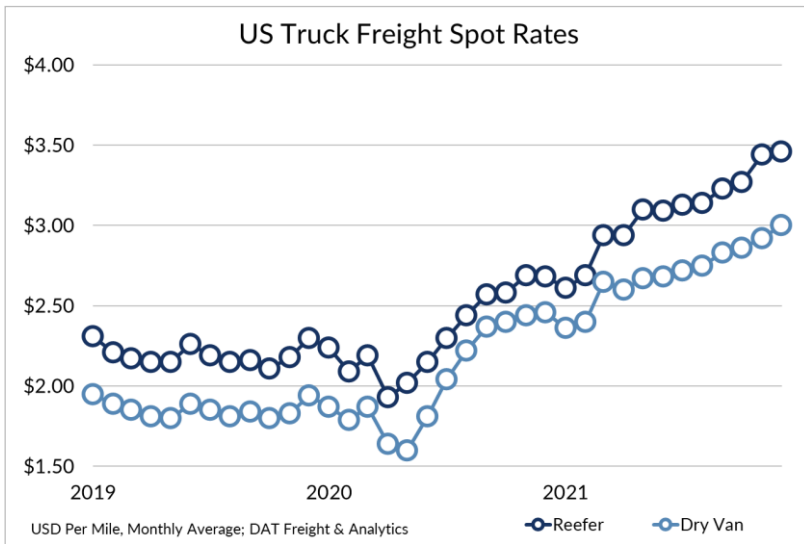
15

average days travel time to move freight across the Pacific Ocean from Shanghai to Los Angeles

3.4¢

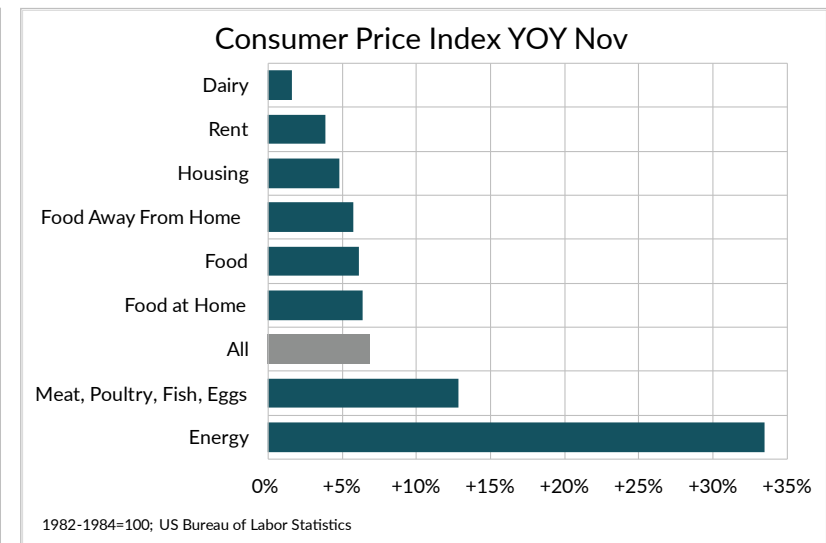
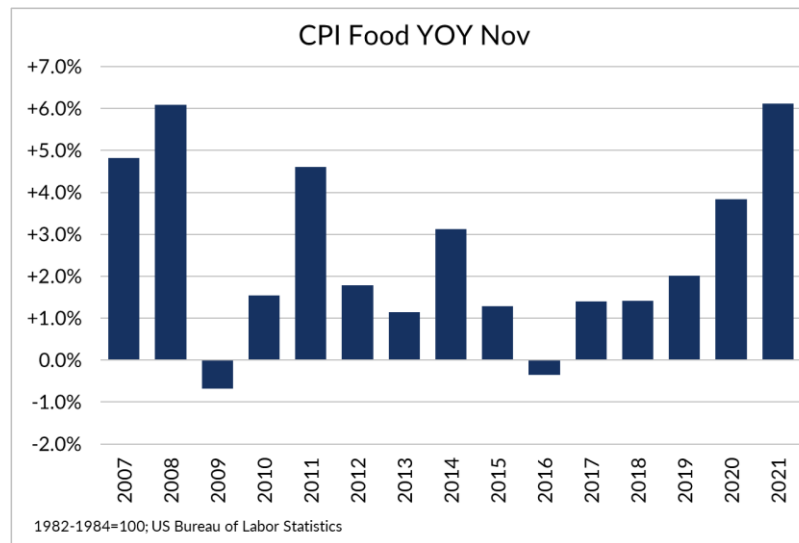
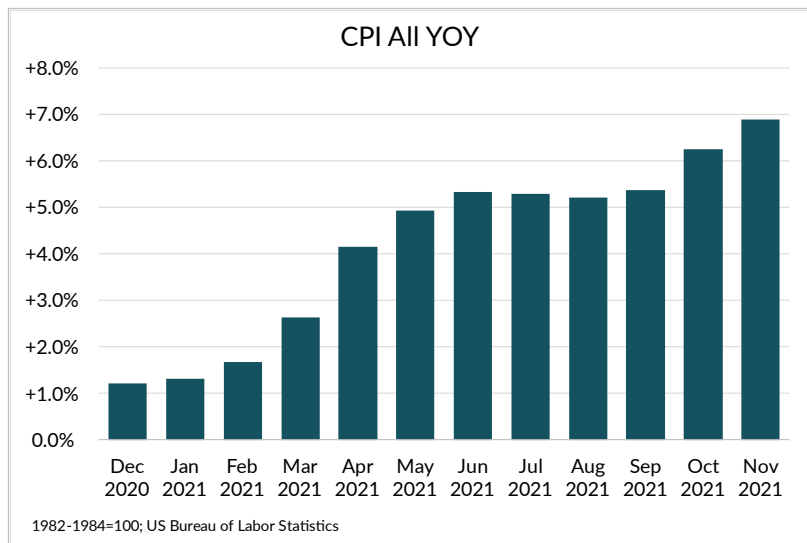
of the average food dollar in the United States goes to transportation

And Then We Wait For The Trucks!



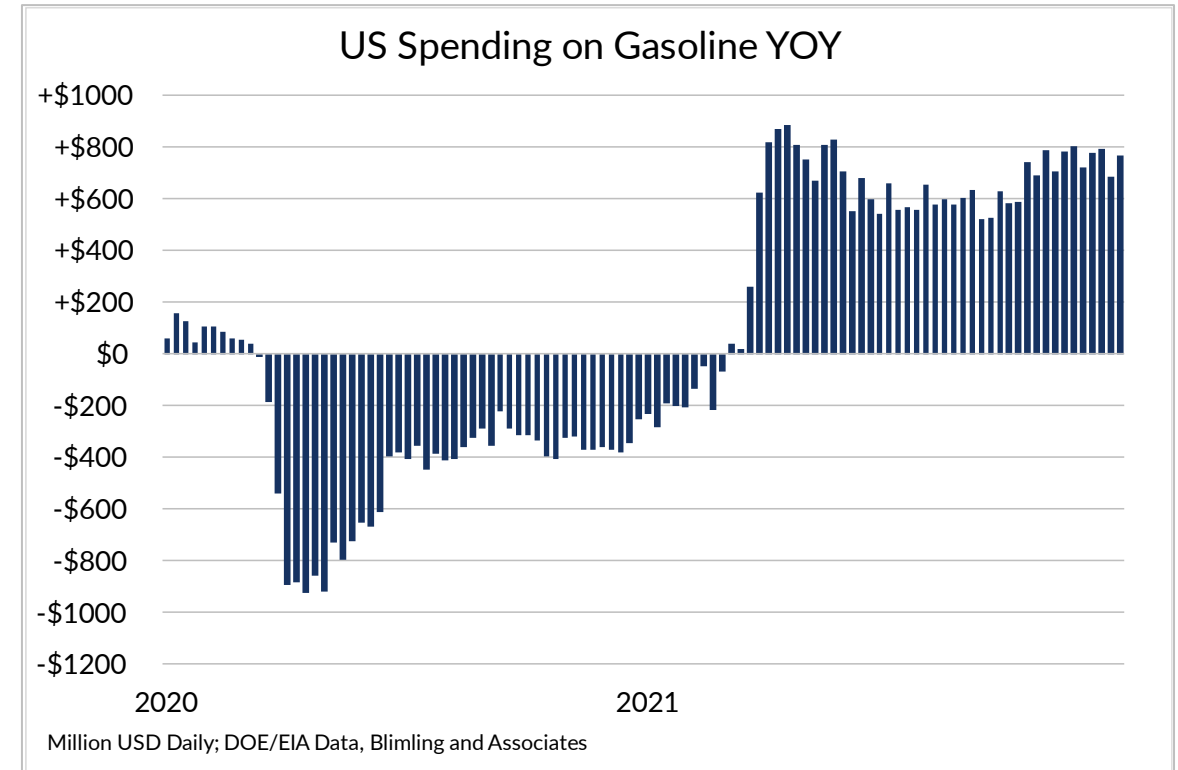
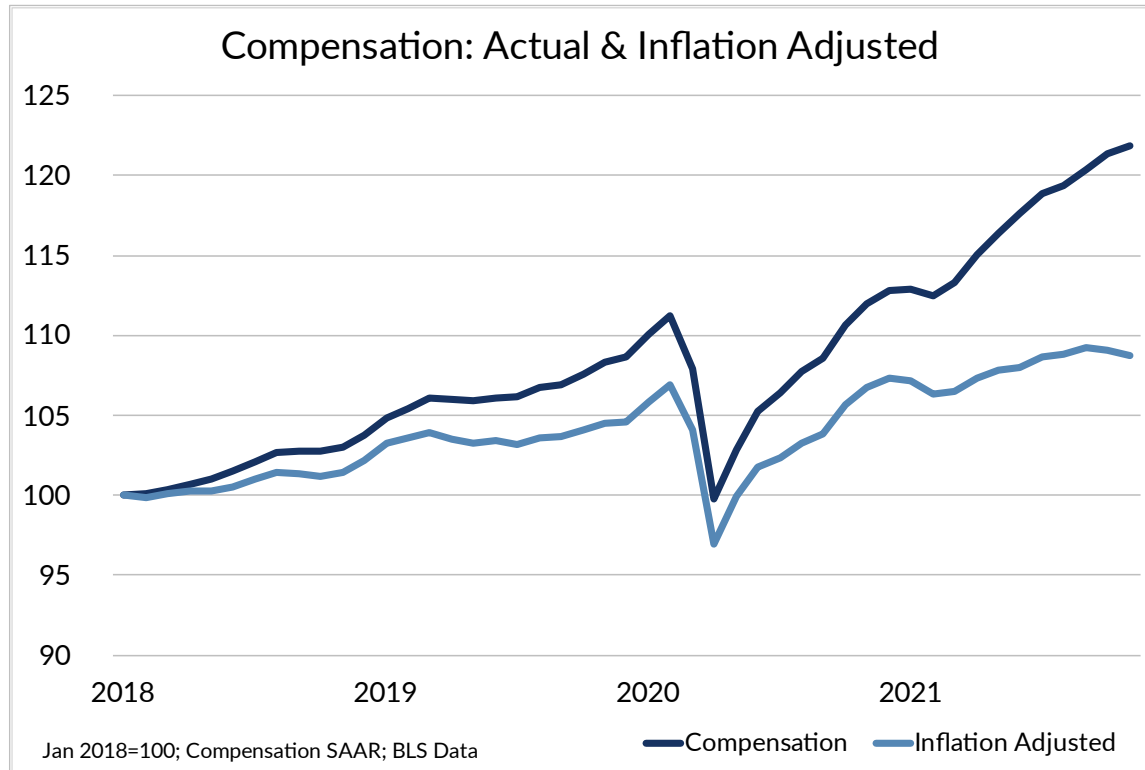
- Year ended with reefer rates at \$3.46 per mile, up 29% year-over-year. For all of 2021, rate averaged \$3.09 per mile, up 33%. Dry van rates up 32% for the year.
- Cass Index for US Freight Expenditures nearly doubled from early 2020 to late 2021.
- Massive truck driver shortage persists (80,000?). CH Robinson says there are 35 truckloads available for every truck (10-to-15 normal).
- Heavy truck sales are lagging.

CPI Running Hotter



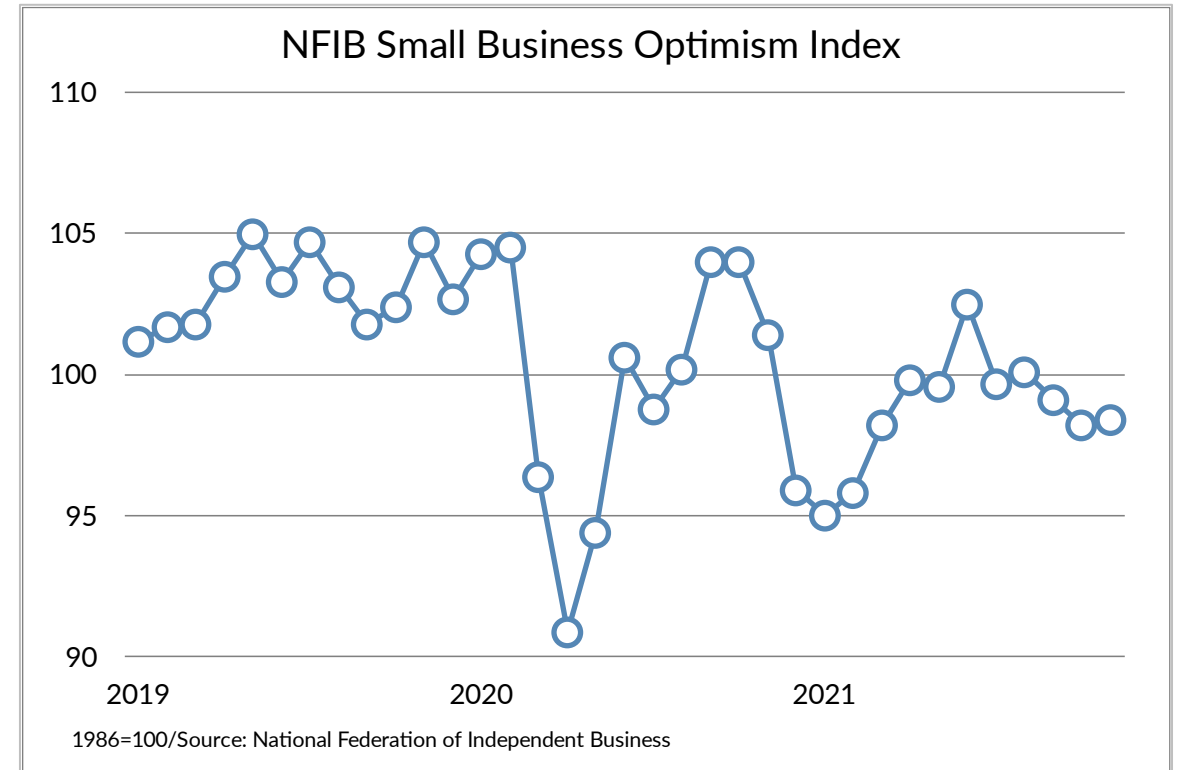
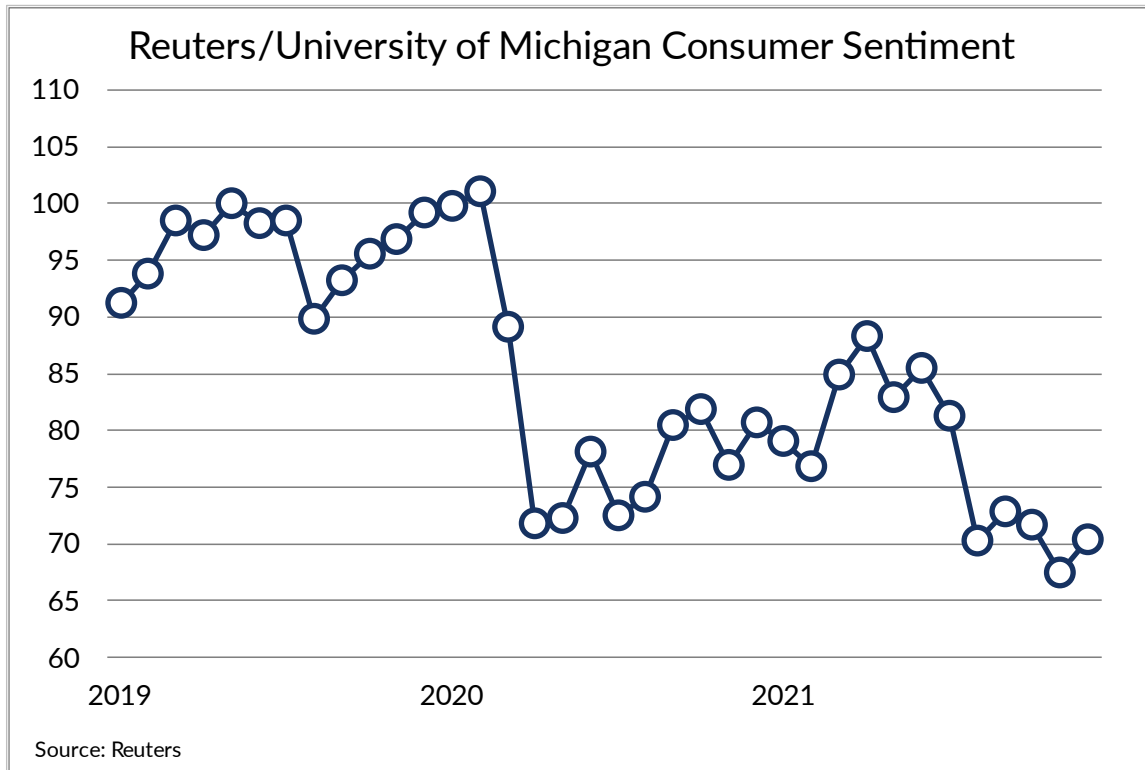
- CPI for all goods was up by nearly 7% year-over-year in November.
- Food prices are beginning to accelerate, up by nearly as much as overall inflation.
- Restaurant prices are up more than grocery store prices (+4% versus +3% YTD).
- Dairy product prices are up by just over 1% while meat prices are up by nearly 6%.
- Human nature: buy more now!

The “Fun” Stage Is Probably Over



- While wages are accelerating, they are not keeping pace with inflation.
- We are spending \$800 million more per day on gasoline.
- Direct government support tapering off

Surveys Reveal Some Concern/Discontent

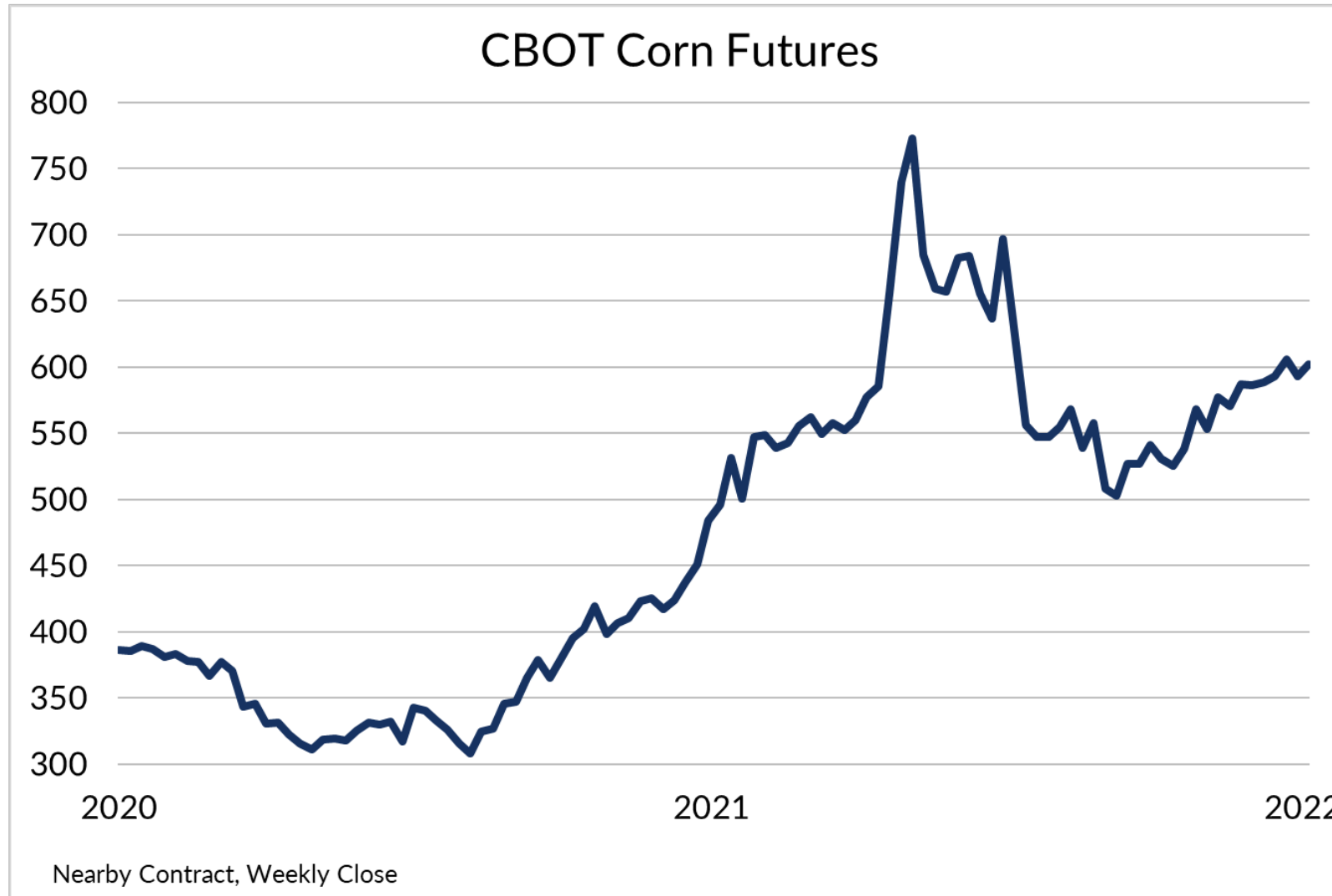


- University of Michigan Sentiment Survey shows consumers in a funk. Is it lingering Covid? Inflation? Apprehension about the futures? Political discontent?
- Small business owners have a cautious view, too.

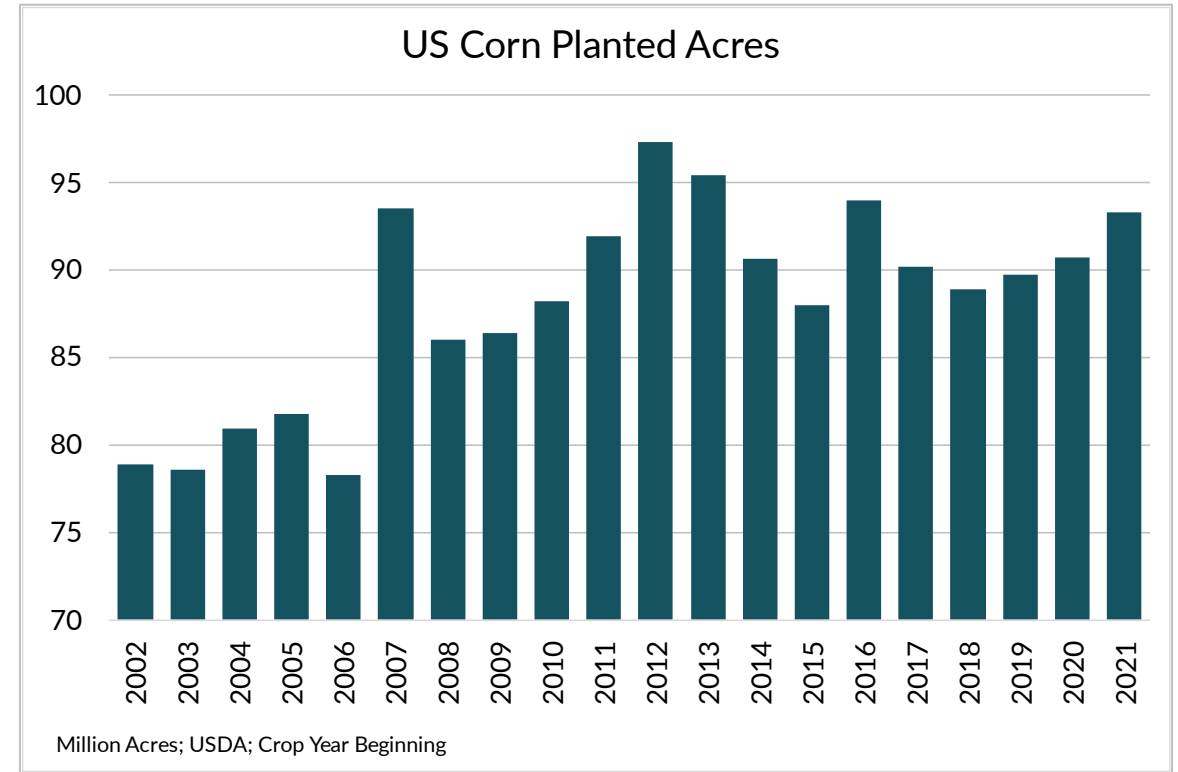
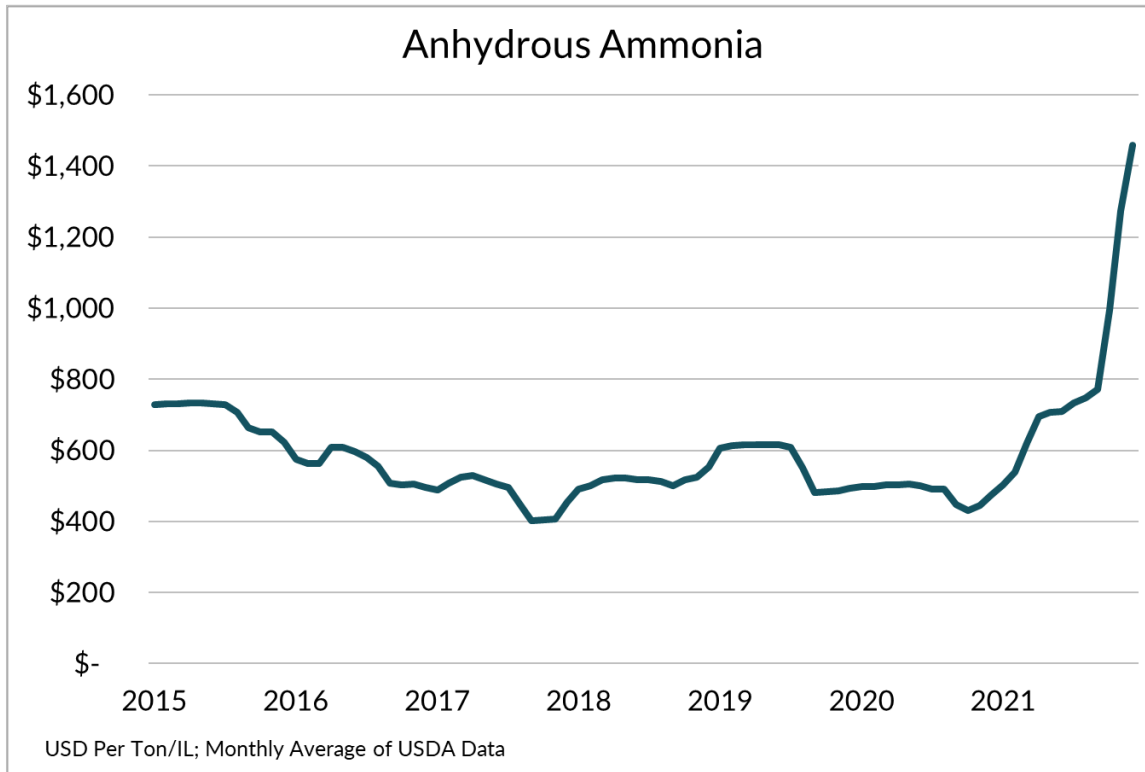
So What?

- **Fragility Demands Agility:** “Supply chain” issues will not disappear in 30 or 60 days. Things will continue to break. Things will continue to take longer.
- **Situation Contributes to Commodity Market Volatility:** What happens if a butter plant cannot staff a shift? What happens if a cheese packaging company cannot get enough zipper bags?
 - Price impacts are not all in the same direction!
- **Don't Underestimate Human Nature:** Fear and greed help perpetuate inflationary markets – buy more now just in case or because it's definitely going to be higher tomorrow.
- **Markets Work:** Price is a fundamental.
- **Everything Keeps Going Higher...Until It Doesn't:** Short squeezes all end the same – in tears.

Corn Market Rallying Anew

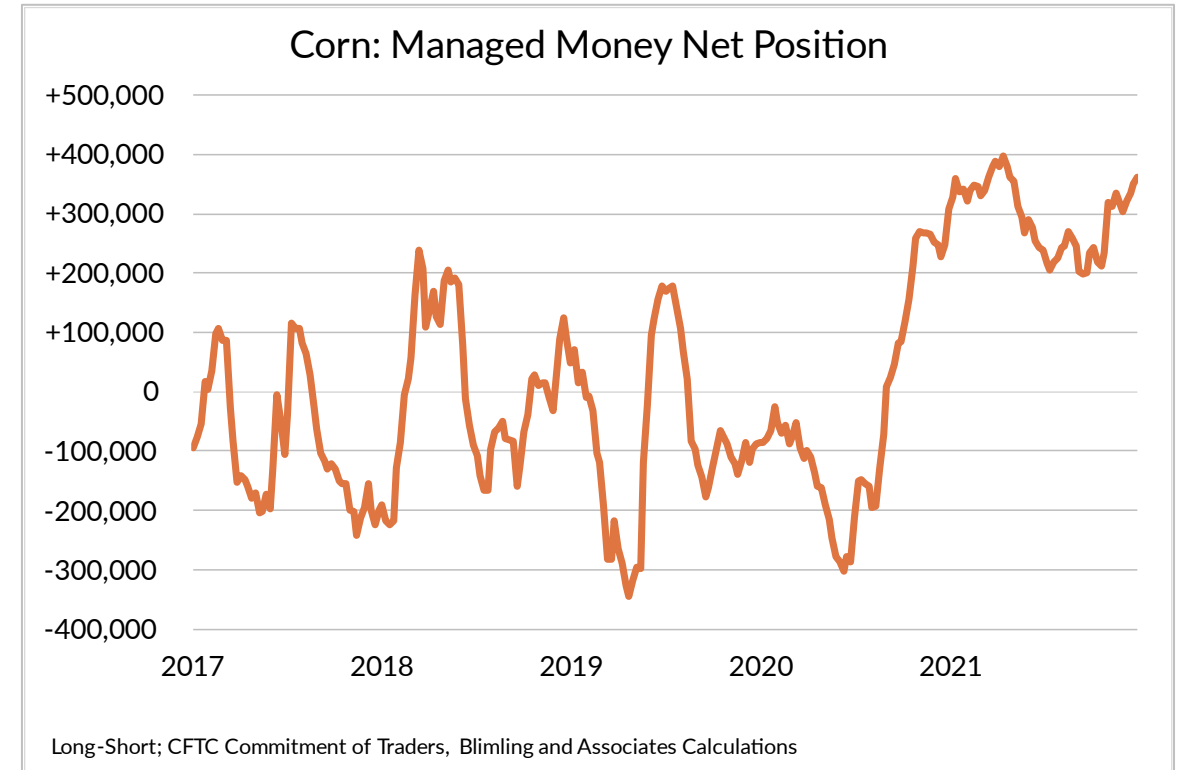
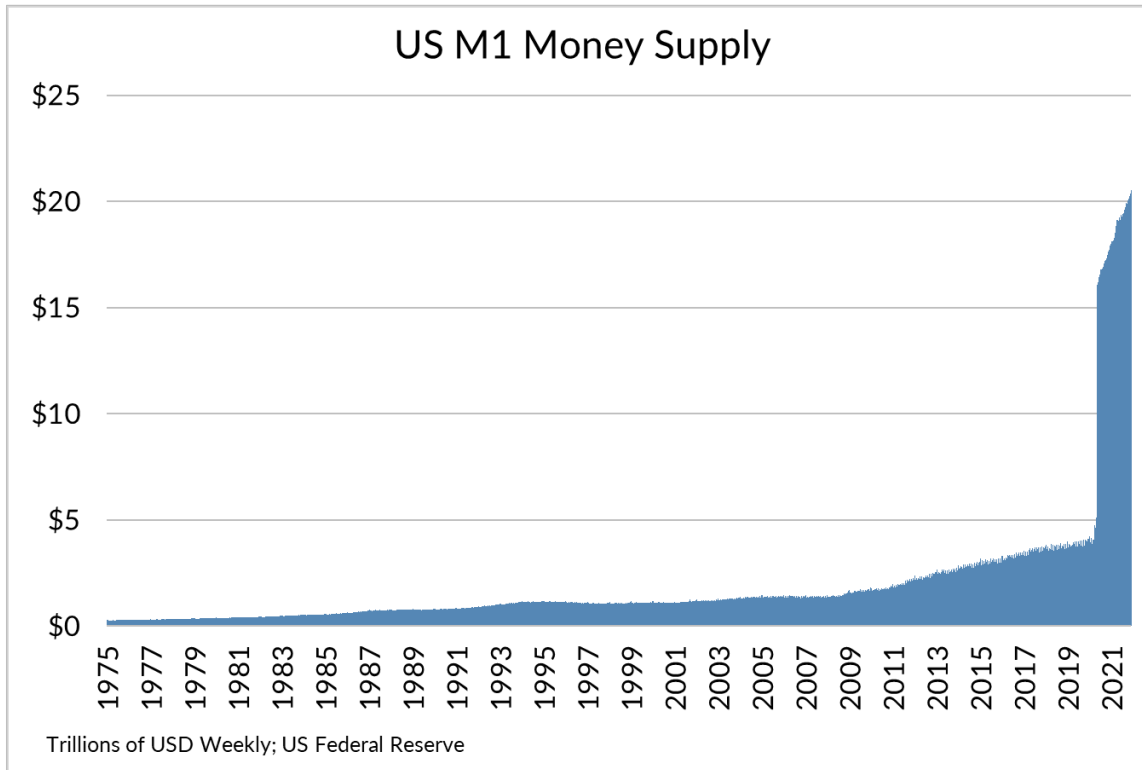


Acreage Angst



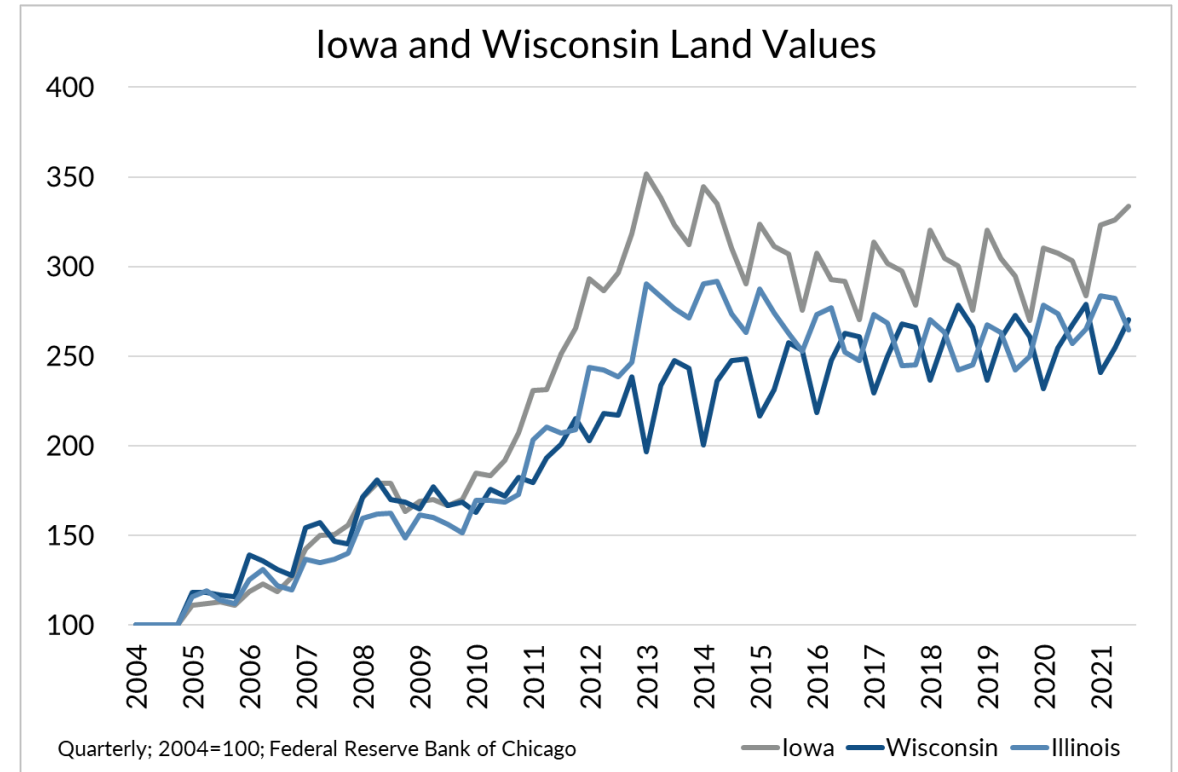
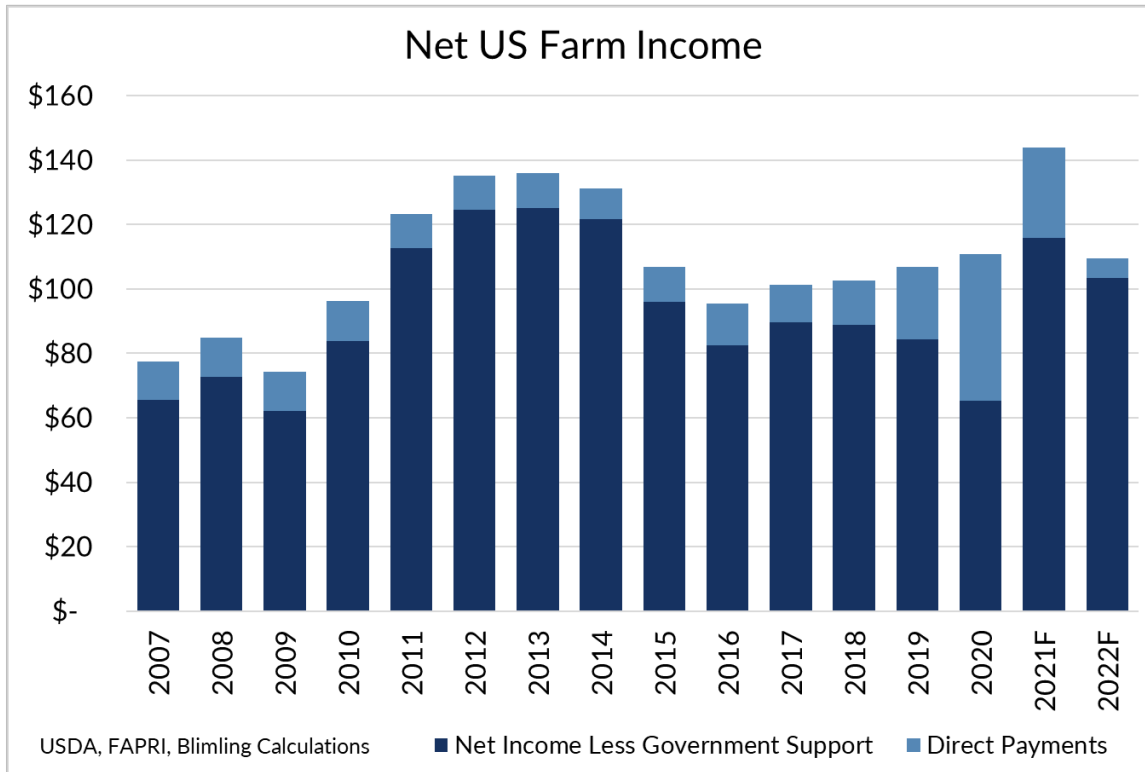
- Anhydrous prices are up more than 3x over the past year – if you can find it.
- Other fertilizer prices up, too.
- How many acres will we plant?

Plenty of Money Around



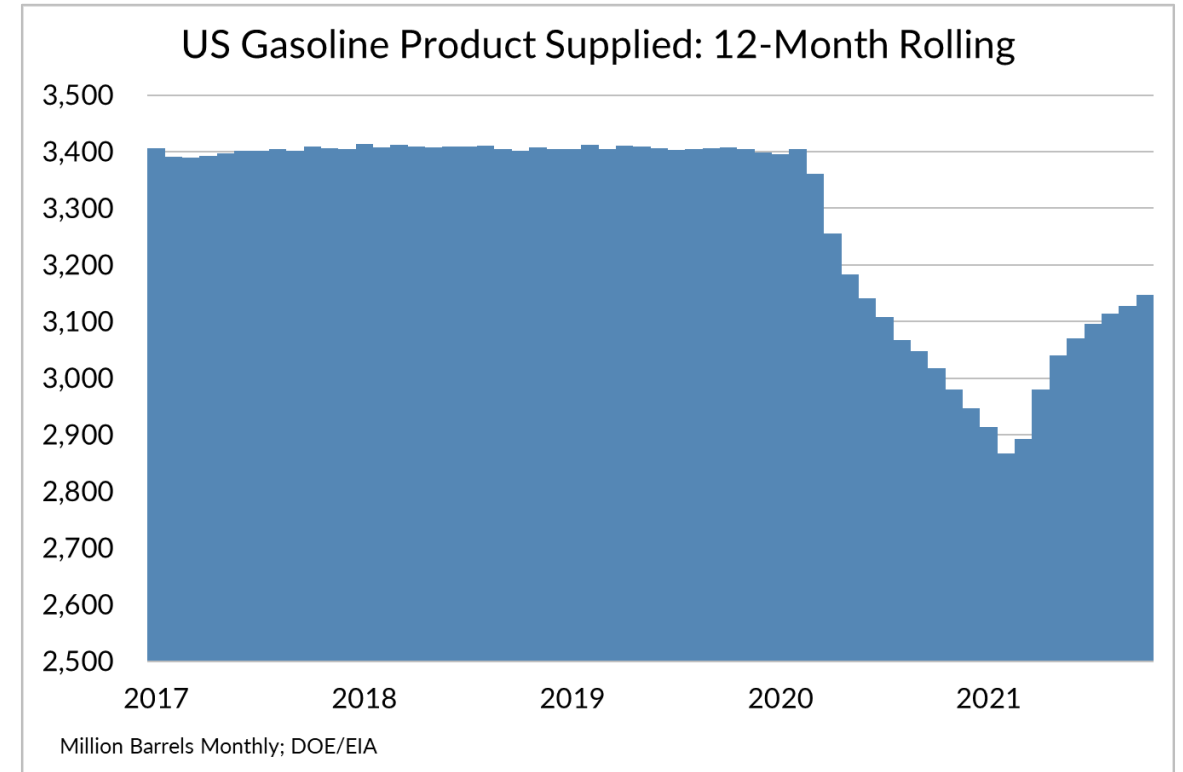
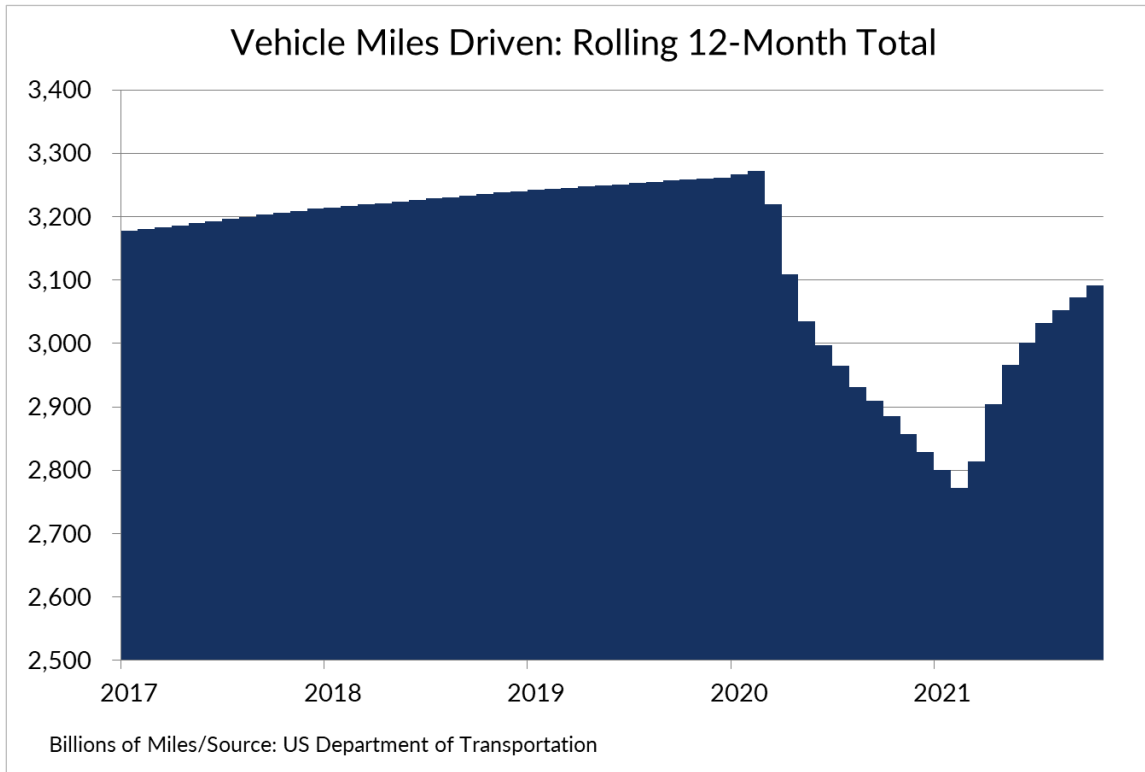
- We've put unfathomable amounts of money into circulation over the past two years.
- Managed money continues to hold a comparatively large net long position.

Farm Income, Wealth Rising?



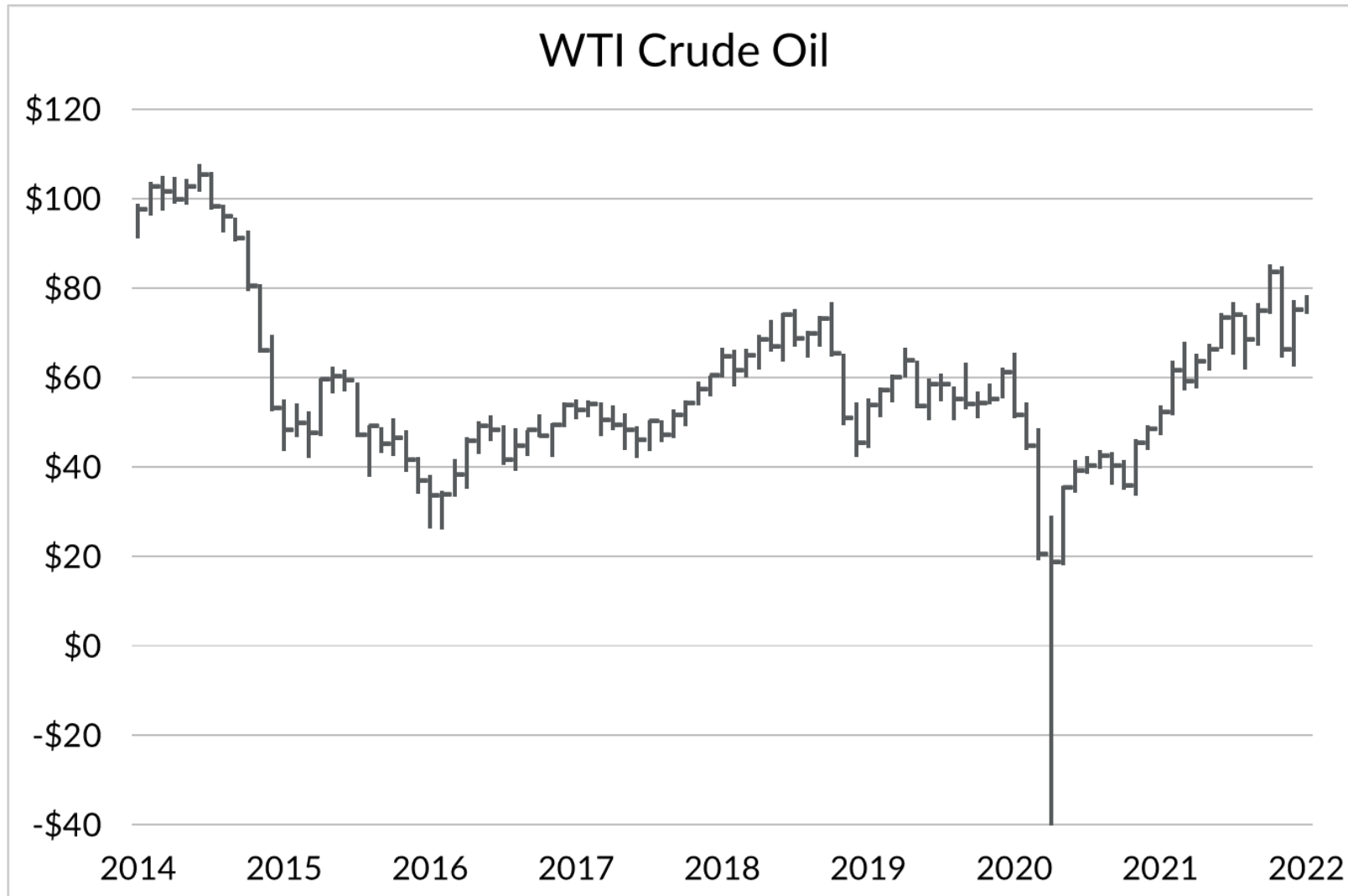
- Generally speaking, farmers enjoyed decent incomes in 2021 and look good for 2022.
- Land prices are rising.
- Numerous anecdotal reports cite aggressive price escalation during Q4 2021.

Huge Change in Vehicle, Gasoline Use

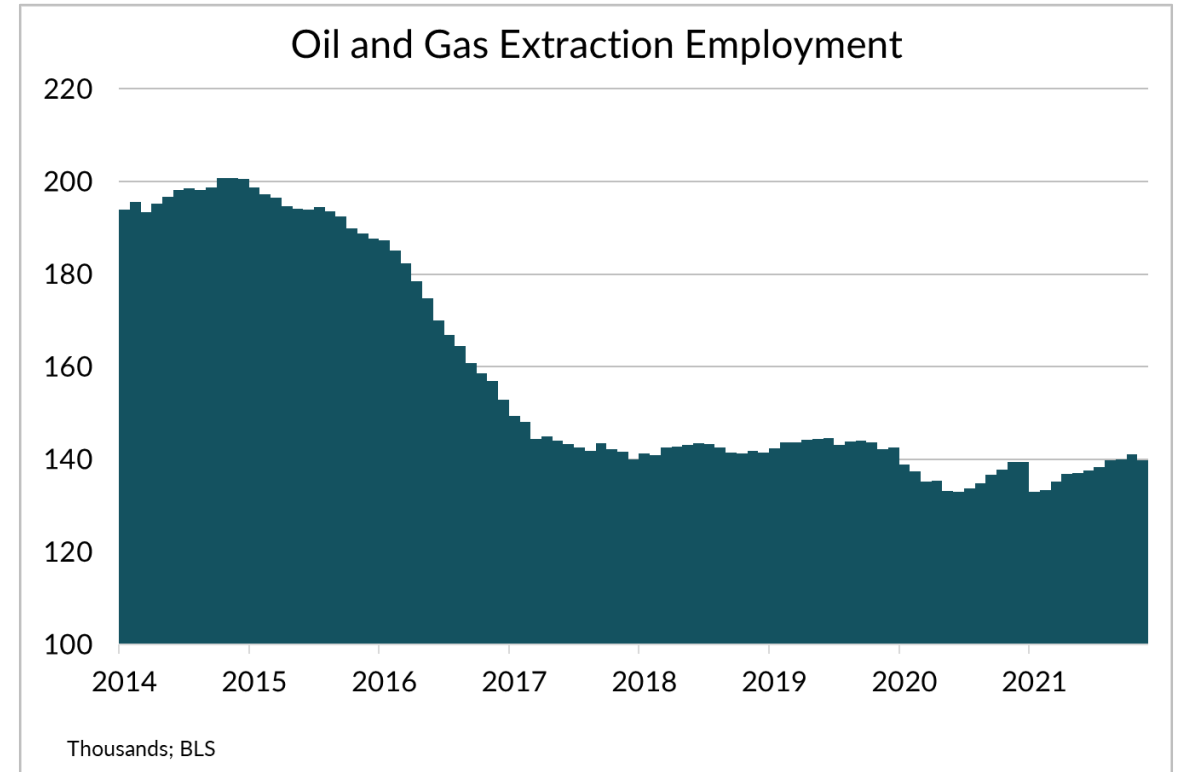
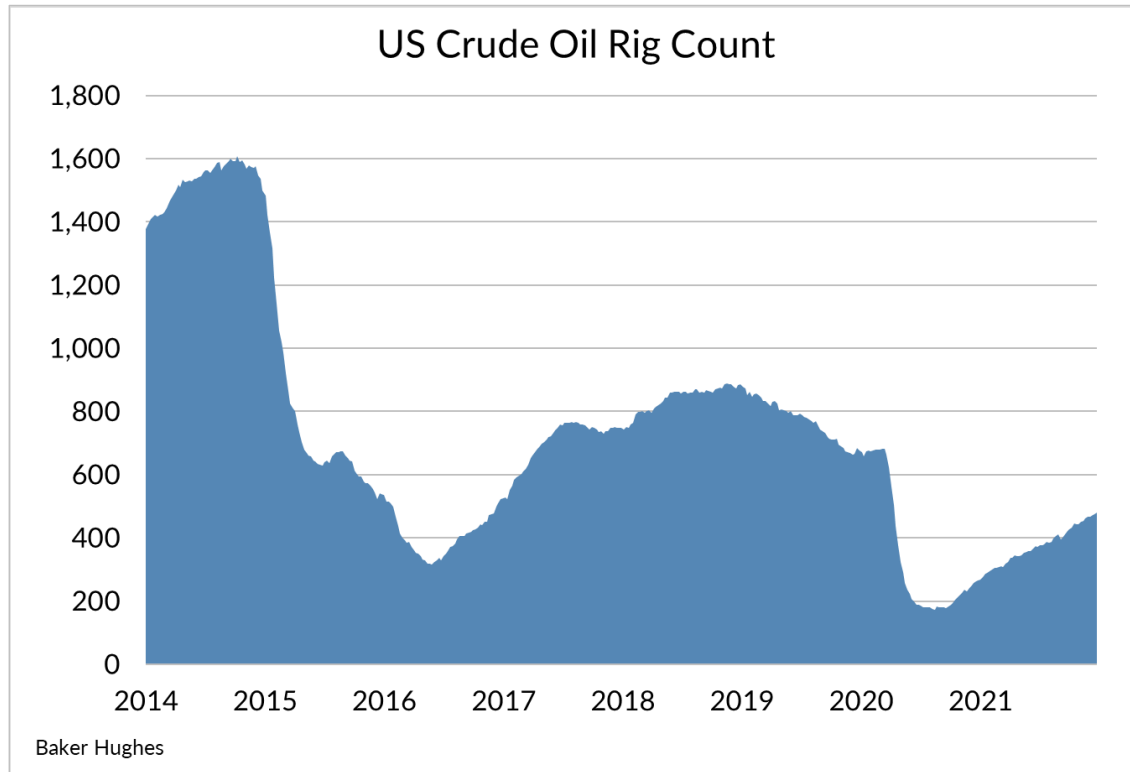


- US vehicle miles down 13% in 2020, up 11% YTD through October 2021.
- Not surprisingly, gasoline demand followed trend: down 13% in 2020, up 4% YTD through October 2021.

Crude Oil: Crazy 2020

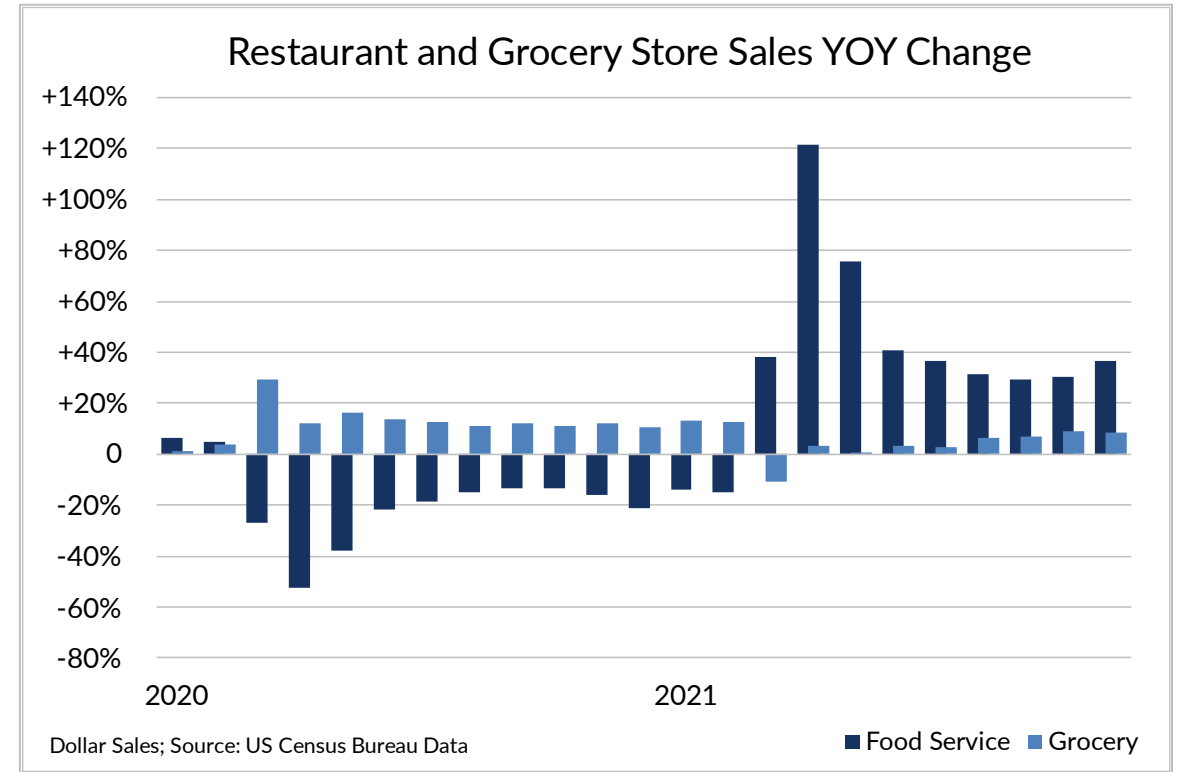
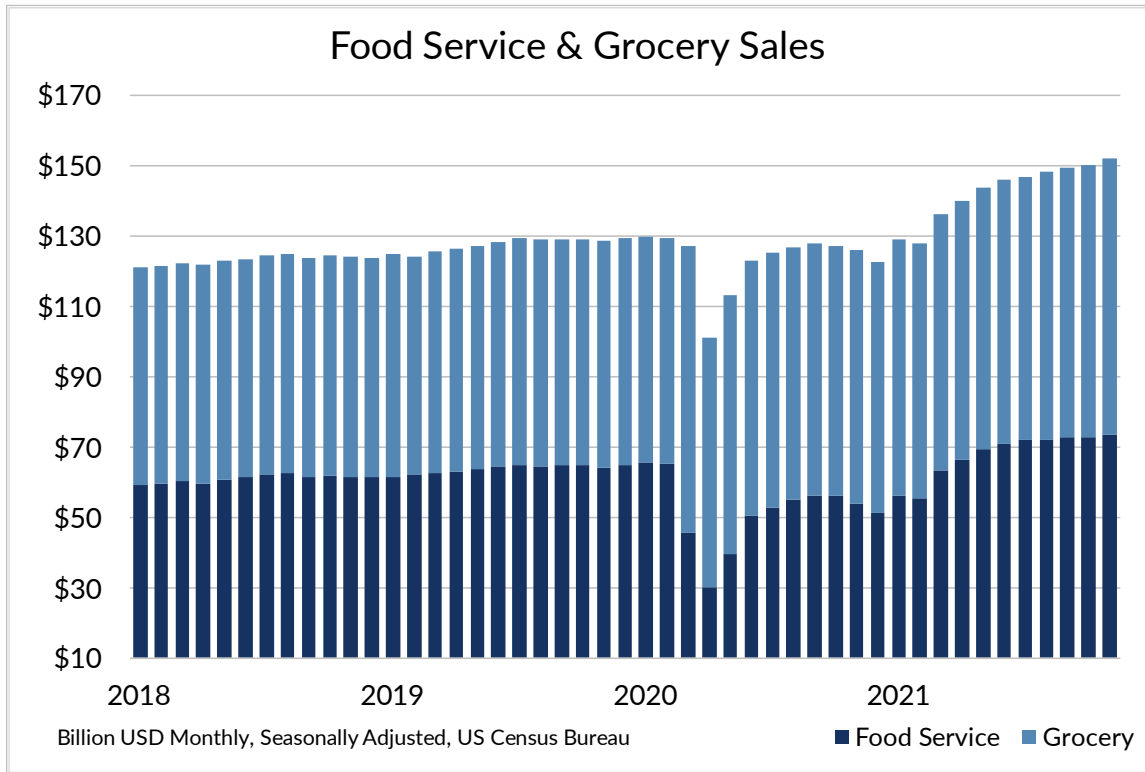


Plenty of Crude Oil and Natural Gas Capacity



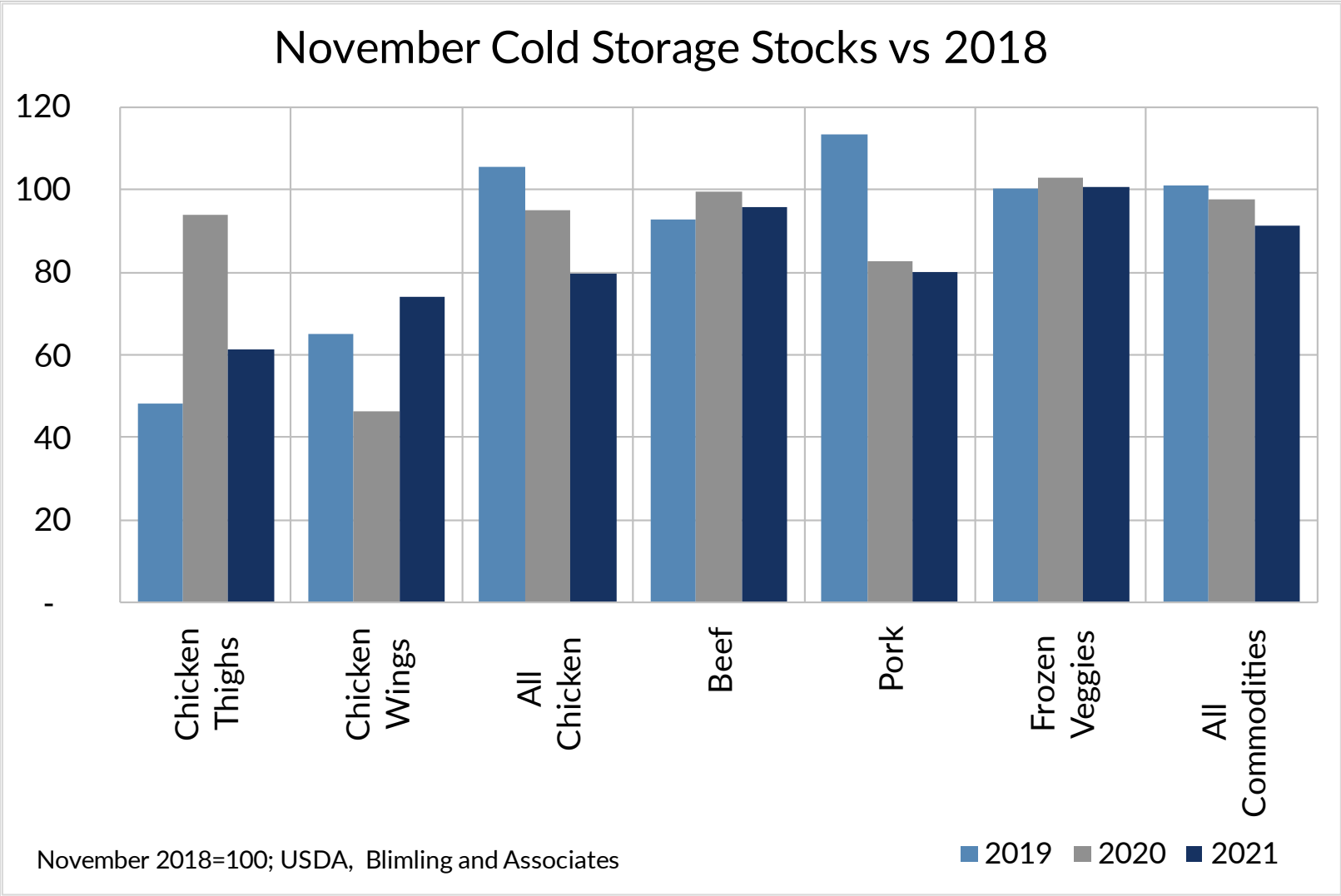
- In 2020, rig count dipped to lowest level since 2005. It's recovered...but remains at ~25% of 2014 peak.
- Is it price or politics?

Food Spending is Higher Overall



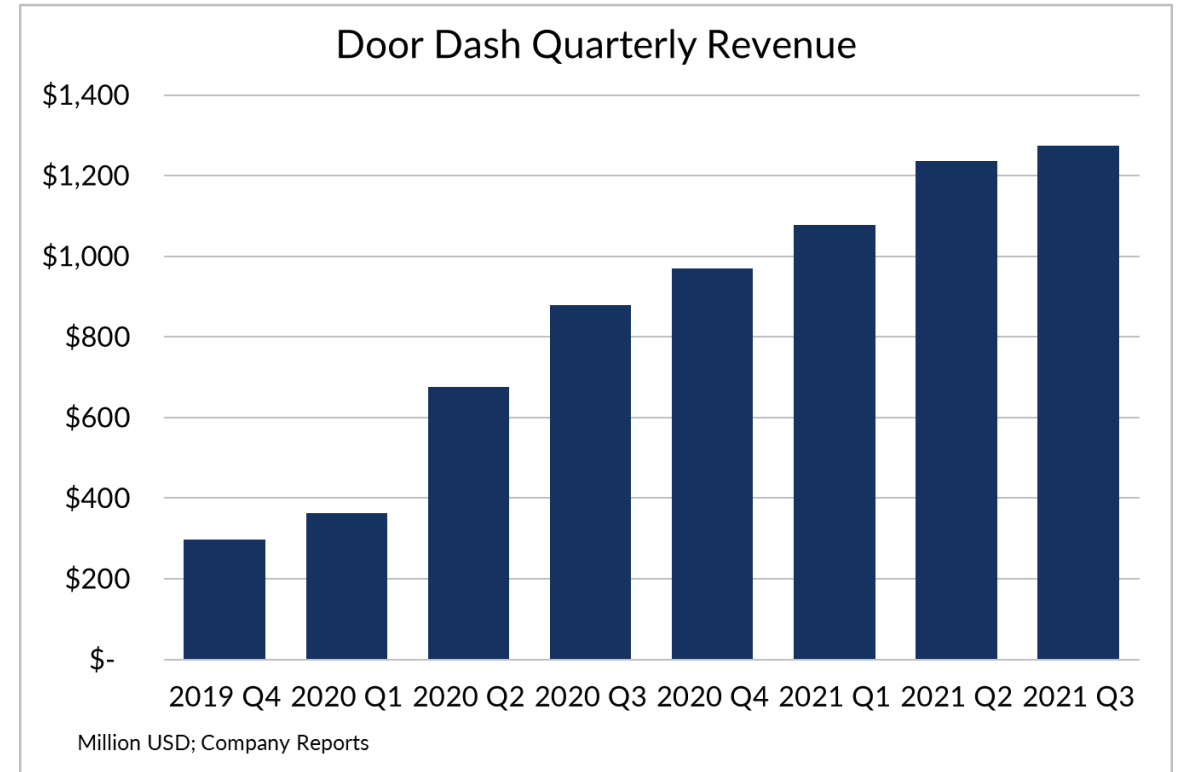
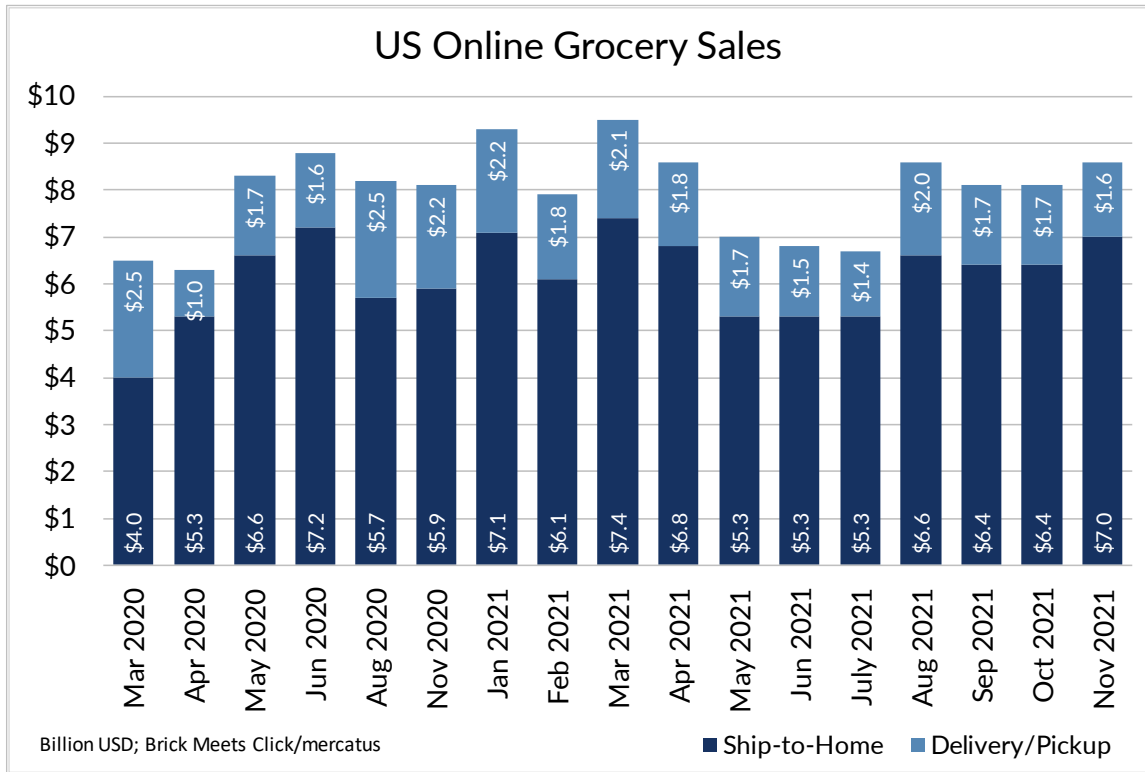
- In November, we spent more than \$150 billion in grocery stores and restaurants, up 21% versus 2020.

Still Adjusting!



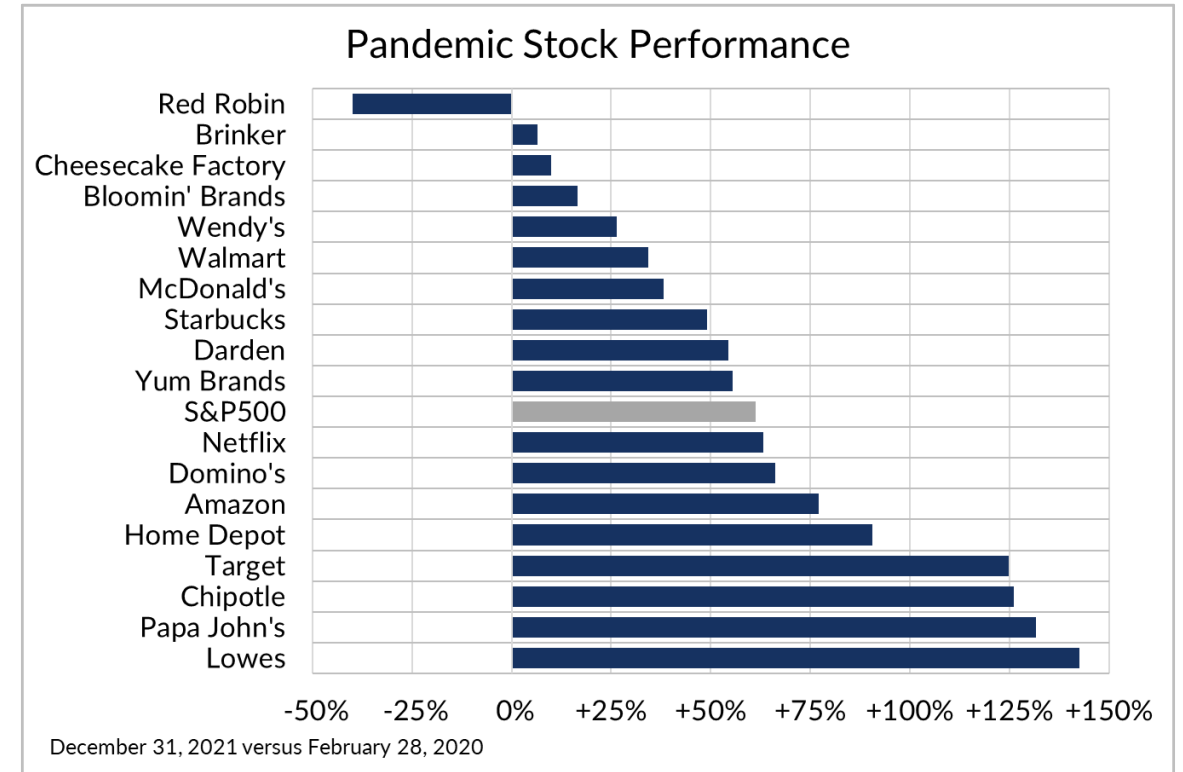
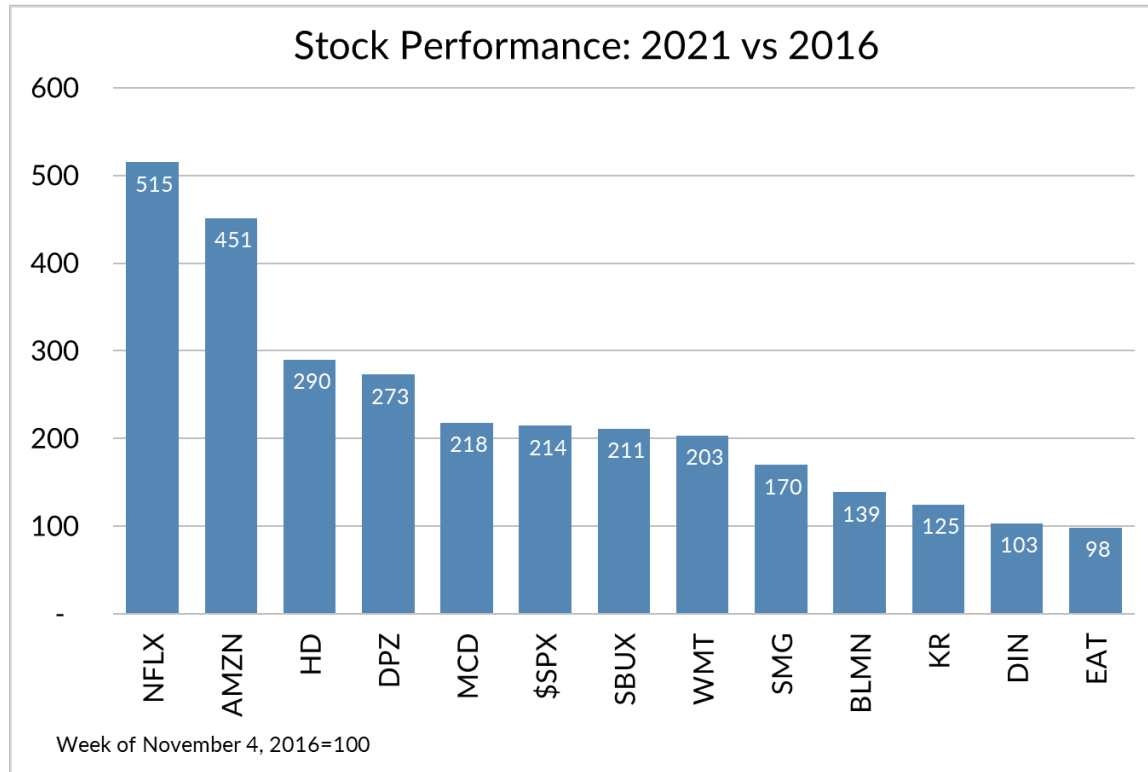
Notes On Consumer Behavior

Direct Ship, Delivery & Pickup Still Strong



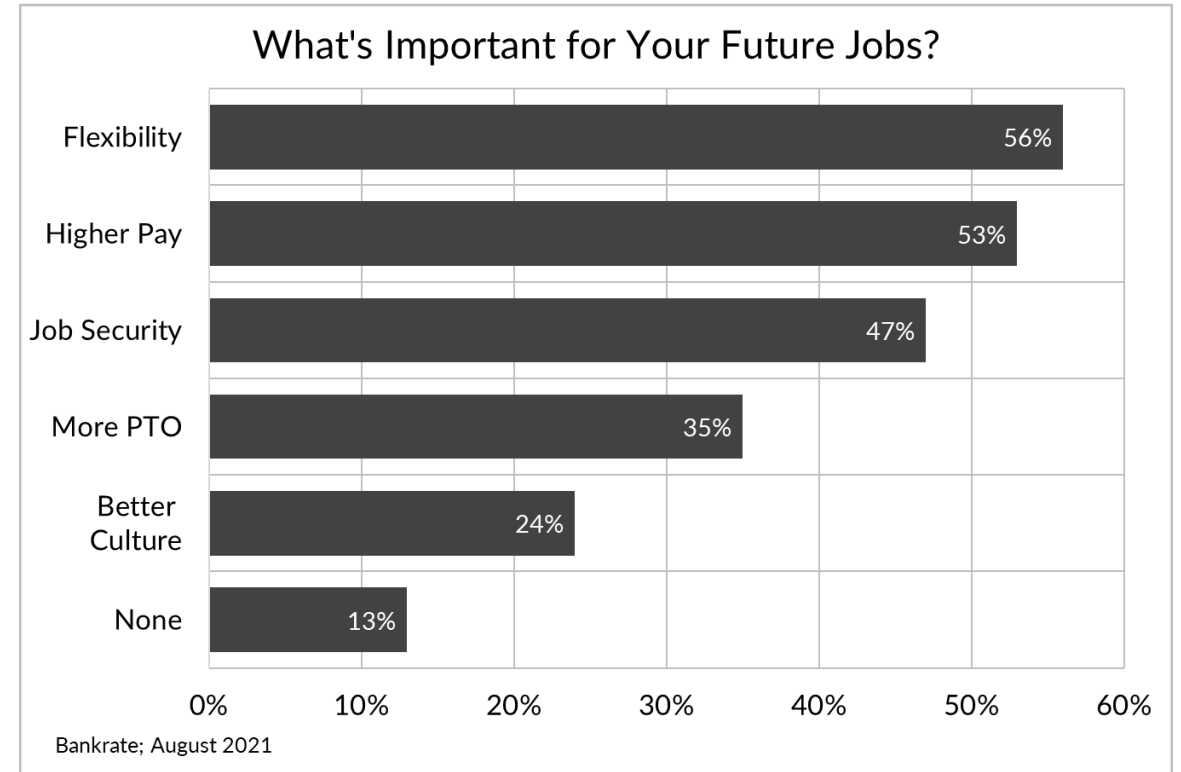
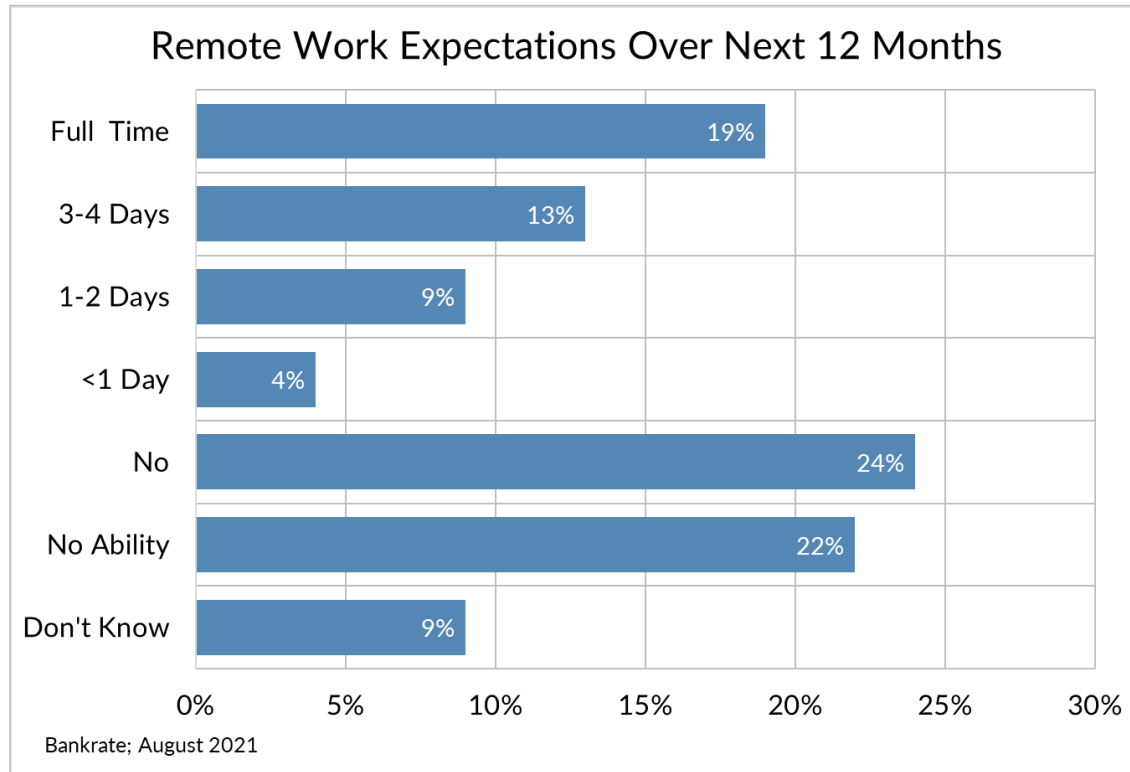
- Though growth has slowed, direct ship and delivery/pickup grocery business continues to hold at levels well above the pre-pandemic norm.
- Door Dash Q3 2021 revenue was more than 4x Q4 2019 sales.

“Stay At Home” Stocks Still Outperforming



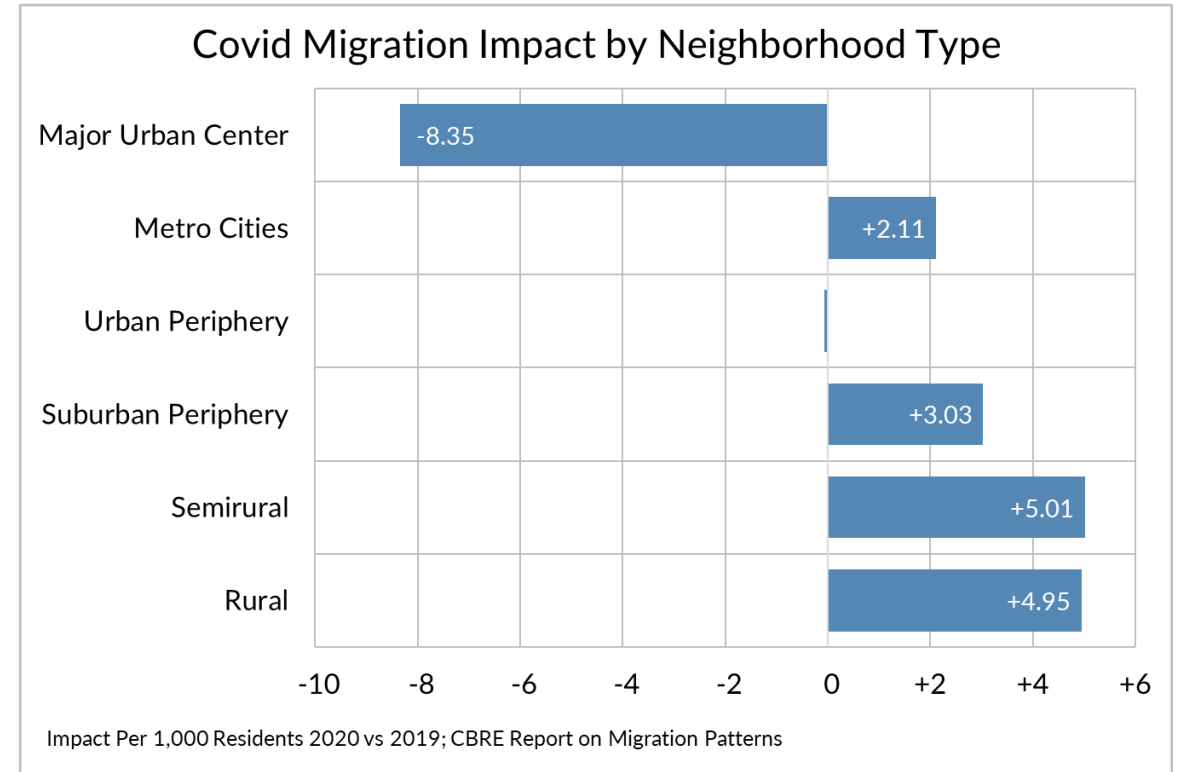
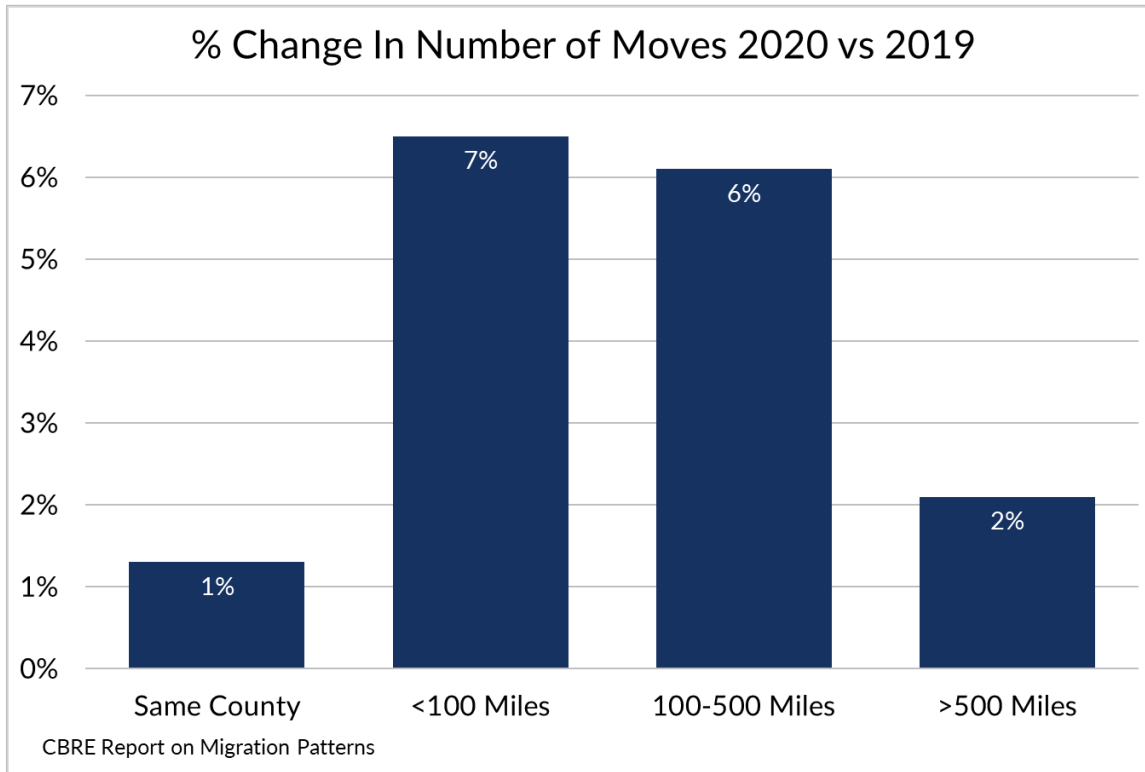
- Companies that cater to our lazy selves (or, more politely, that make things easy) continue to outperform.

People Patterns Are Changing



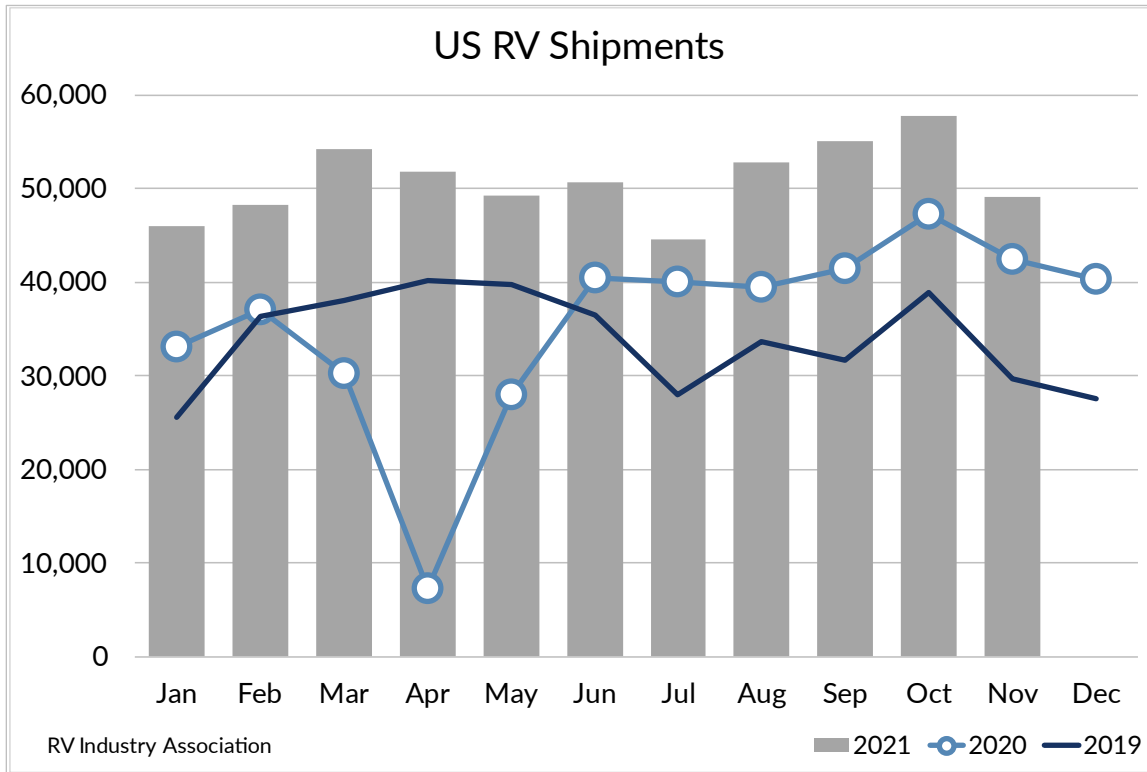
- WFH is not likely a temporary phenomenon.
- What does this mean for real estate and adjacent business activity in certain metropolitan areas?

People Patterns Are Changing



- In 2020, people were more willing to move longer distances than was the case in 2019.
- Migration impact was greatest in semirural and rural areas.

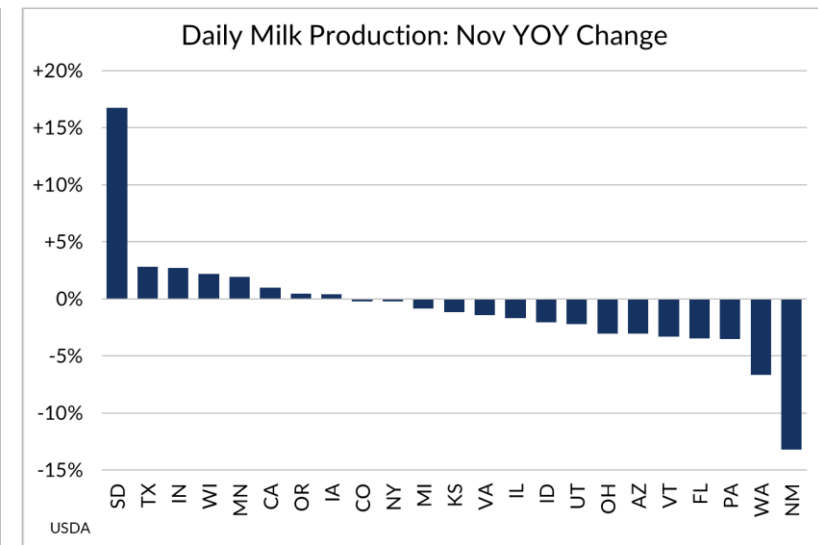
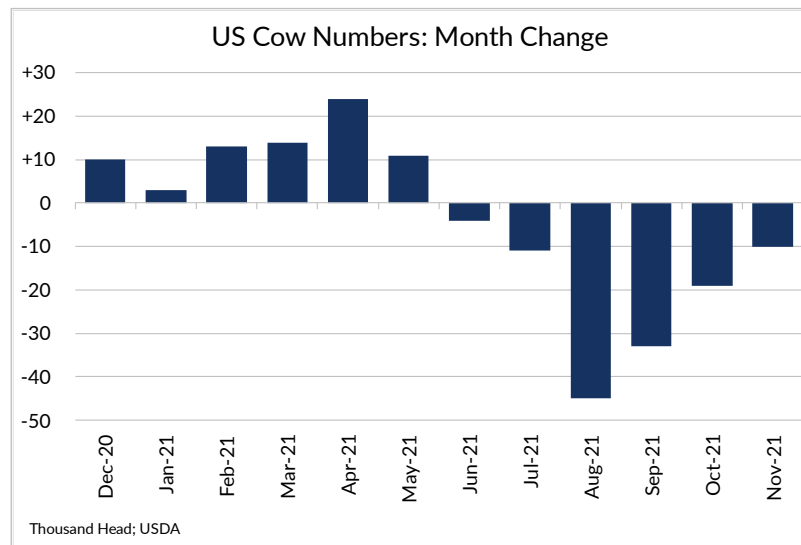
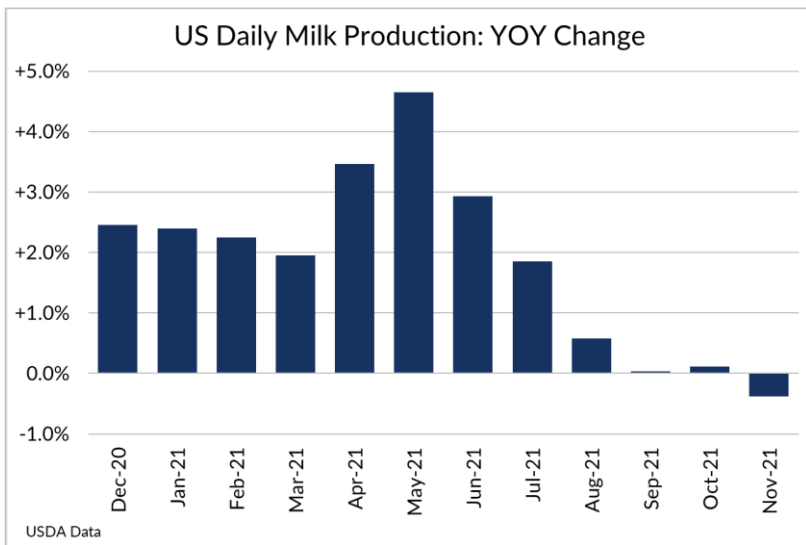
“Work From Anywhere”



- RV sales up 45% YTD through November.
- Airstream and other manufacturers now offer “home office” options for RV buyers.

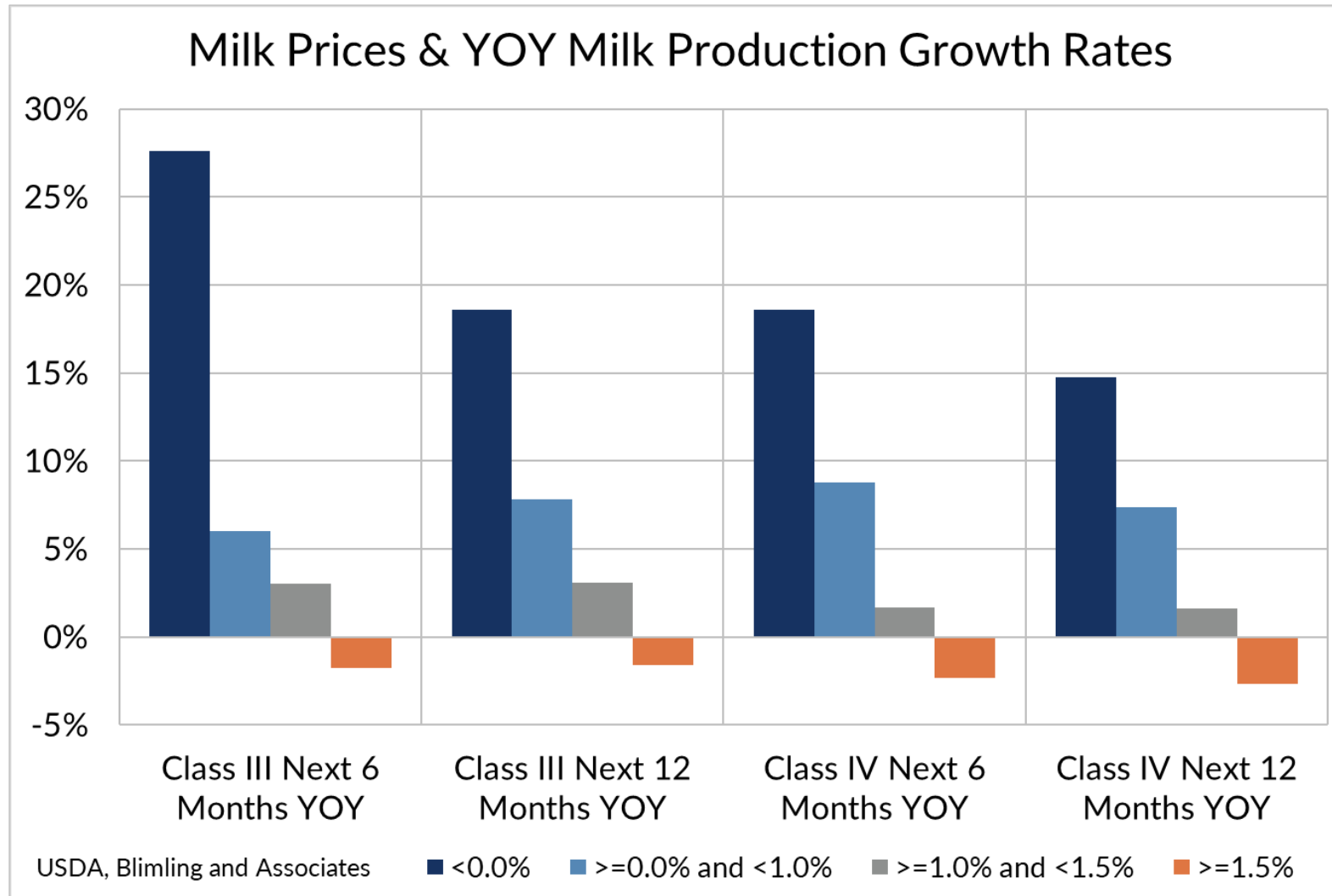
Current Dairy Scene in Four Slides

US Milk Production Declined in November



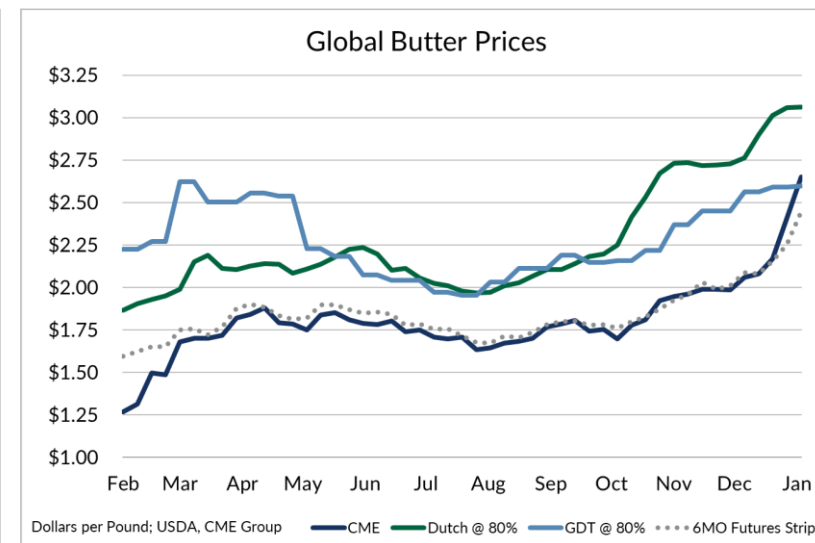
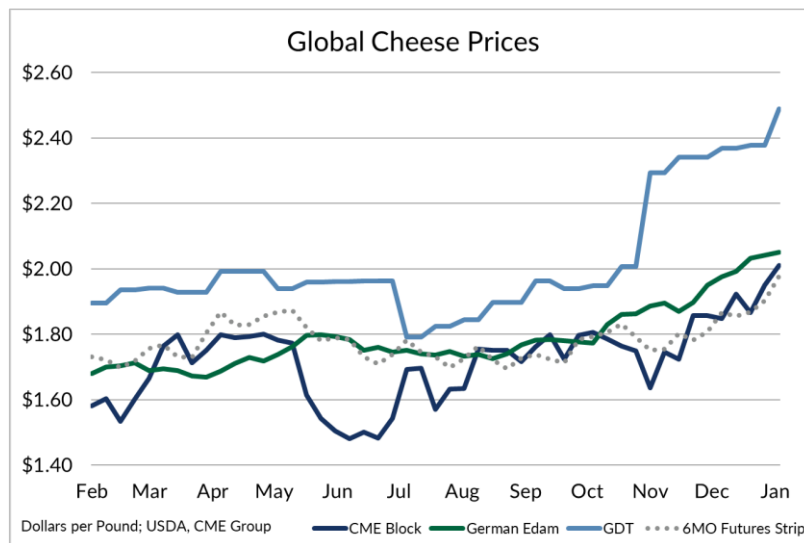
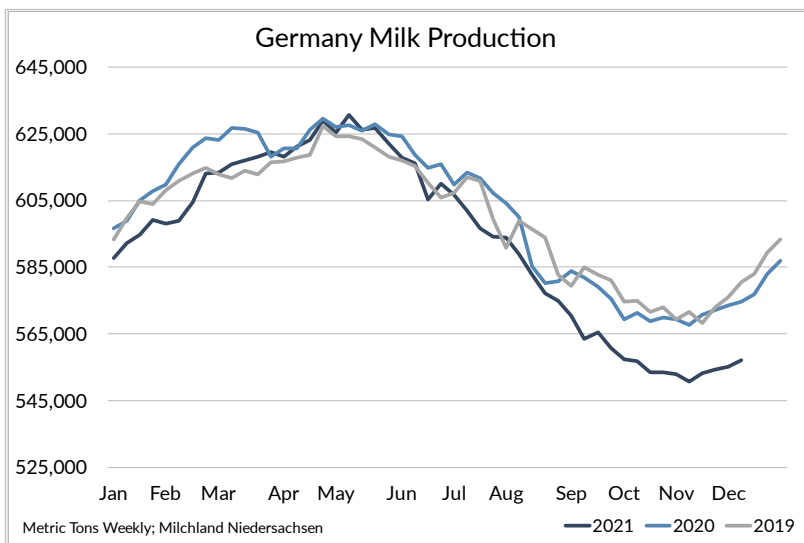
- Milk production down 0.5% year-over-year in November.
- Cow numbers now down 47,000 head year-over-year
 - Are we past the peak of month-to-month declines?
- Report showed 8 of 24 survey states with year-over-year milk production growth

Less Milk Means More Money



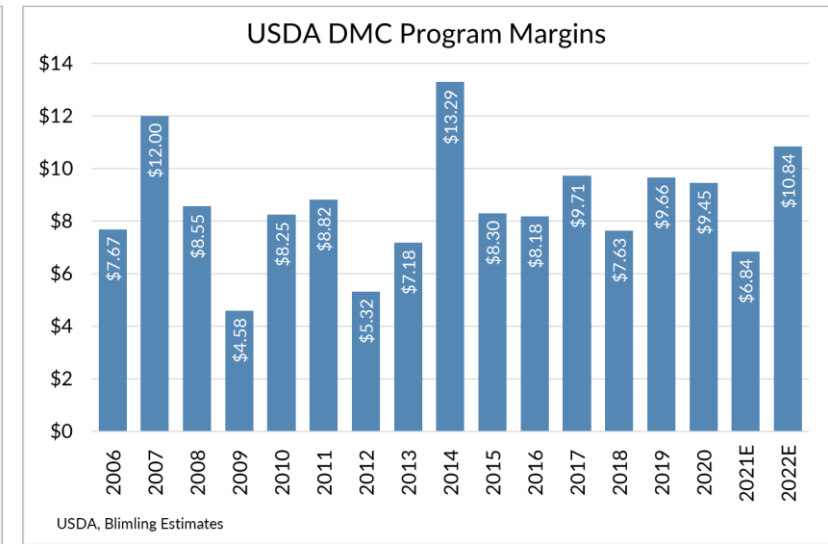
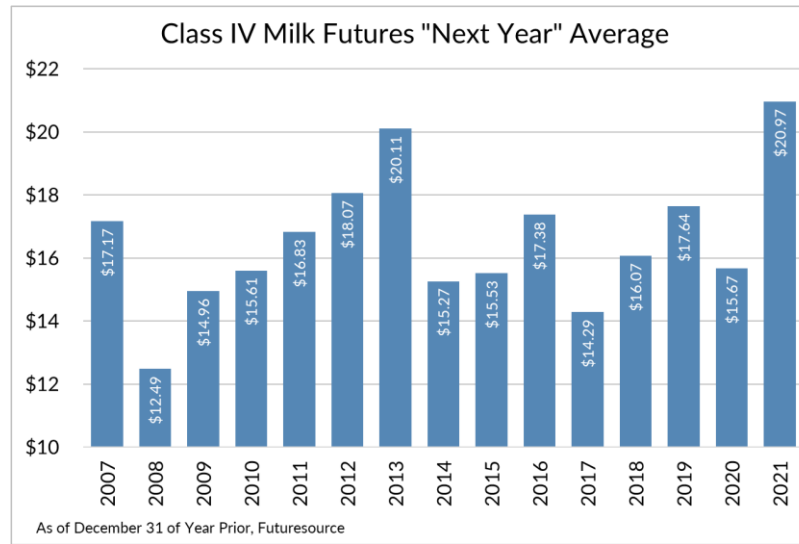
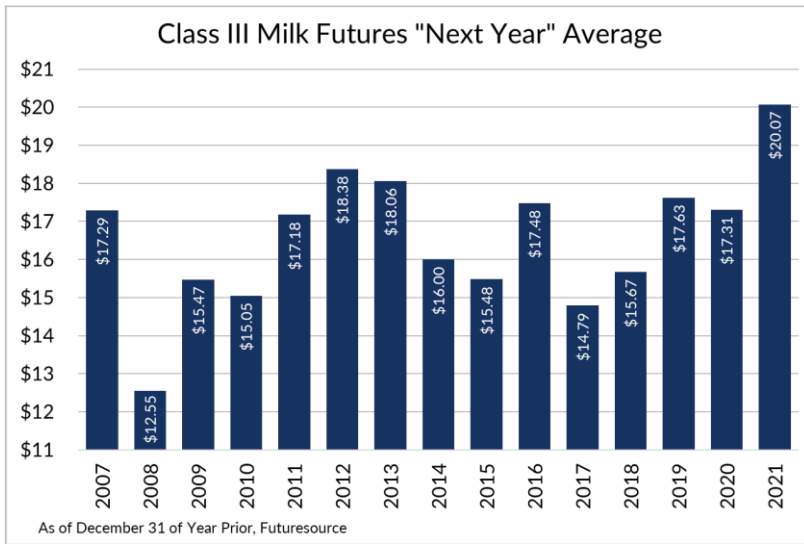
- Going back to 2000, when milk production is down year-over-year, Class III pricing over the next six months is up 27% year-over-year.
- If that holds true today, we are looking at \$21.50 for the first part of 2022

Global Output Soft, Prices Firm



- Milk production is running 2% to 3% lower in Europe's top three milk producing nations: Germany, France, UK. New Zealand output is running 3% behind year-prior levels (but showing some improvement lately).
- EU and New Zealand dairy product prices are above US prices – by big margins in some cases.
- Clearly supportive to bullish for US over the near-to-medium term.

Expectations Running Hot!



- We've never seen "next year" futures at these levels (\$20.07 Class III, \$20.97 Class IV)
- All-time record annual averages: \$22.34 for Class III, \$22.09 for Class IV, both from 2014
- Begs the question: Is all the bullish news already in the market?
- Forward looking margin opportunities look good.

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