

# 2020 VISION FOR AGRICULTURE

Chicago DTN Conference

December 8, 2010

Gary Taylor

# Introduction

Grow up on a Family Farm in Iowa

Graduated from Iowa State (undergraduate) and the University of Minnesota (MBA)

A Cargill employee for 38 years in a variety of businesses including Grain and Oilseeds, Cotton, Corporate Tax and Finance

Retired last December as President of Cargill Cotton

Owens and manages 11,000 acres of Midsouth farmland

Formed a Private Equity Fund to acquire U S Farmland for Institutional Investors in 2010

# Farmland Financial Performance (20 year mean annual returns)

Timber	10%
Farmland	9%
S & P 500	8%
Long Term Corp Bonds	6%
Gold	6%
Commercial Real Estate	4%
GSCI Commodity Index	4%
US Treasuries	1%

# US Farmland/Alternative Investment Earnings Volatility

US Treasuries	3%
Farmland	10%
Long Term Corp Bonds	12%
Timber	14%
S & P 500	18%
GSCI Commodity Index	25%
Gold	27%

# Content of Presentation

Discussion of Economic Scenarios that will impact  
Agriculture in the coming 10 years

Discussion of Agricultural Drivers in major  
importing/exporting Countries

Discussion of Global policies that will guide  
Agriculture in the coming 10 years

Consolidation – my view of what Row Crop  
Agriculture may look like in 10 years



# Economic Scenarios that will impact Ag for the next 10 years

Status Quo

Deflation

Moderate Inflation

Hyper Inflation

# Status Quo

Low Inflation

Low Interest Rates

Moderate Commodity Prices

Moderate to no Asset Value Appreciation

Weaker Dollar

Massive Federal Deficits

Little Job Creation

# Deflation

Negative Inflation

Very Low Interest Rates

Falling Farm Asset Values (Land & Equip)

Lower Commodity Prices

Cash is King

Most Businesses would Struggle

Highly Leveraged Businesses and People may  
find Bankruptcy an only option.

Commercial and Housing Values would Crash



# Moderate Inflation

Upward Pressure on Consumer prices

Moderate to high Interest Rates

Higher Commodity Prices

Asset Values Should Increase

Dollar would Likely Lose Value Against most  
Currencies

Commercial and Housing Value would Rise  
Slightly

# Hyper Inflation

Interest Rates in Double Digits

Extreme Consumer Price Increases

Commercial and Housing Values on the Rise

Huge Farmland Value Increases (70's)

Very High Commodity Prices

Extremely Weak Dollar Valuation versus other  
Currencies

Huge "Tax" on Fixed Incomes and Cash like Assets

# So What ?/Major Takeaways

Government fiscal and monetary policy will have a major impact on input costs and commodity prices in the next decade

It is reasonable to assume we stay on this path 1-3 years, followed by more moderate inflation for a like period, with double digit inflation in our future by the end of the decade

Should we experience deflation agriculture will suffer – land values as well as farming operations

# World Economic and Political Factors that will Impact US Agriculture in the next Decade

Agriculture is becoming increasingly Global.

Regional Customs, Incomes, and Government Policies will dictate the next decade's World Agricultural Winners.

Food and Energy Self Sufficiency a key to Regional Success this past Decade – will Water be the next key Resource?

# China

Neither Food nor Energy self sufficient – huge future Energy needs

Exportation of cheap labor key to past success

Major issues with pollution

Population growth is stagnant and growing older

Losing 1-2% of her arable farmland annually to infrastructure

Huge Currency Reserves

Bright, resourceful and hardworking people

Government is not burdened with consensus building

25% of the world's population – 47% of the world's hogs

8% annual protein requirement growth



# Indian Subcontinent

Food exporter/energy importer

The new frontier – the next China

A young, bright, hungry and growing population

Corrupt and difficult Region to do business

Huge Government agriculture subsidies

Limits on land ownership will inhibit agriculture  
productivity progress

Religion will limit beef consumption but with  
economic progress, other proteins will grow

Government is focused on building value added  
exports

# North America

Food Exporter, Energy Importer

Unquestionably the world's best producers (average age of 58)

Outstanding Public and Private Research

Limited land available for development (CRP and western WCB States – drought resistance)

Affluent, stable Population

Public Policy changes appear to be on the horizon putting Farm subsidies at risk

US - Saudi Arabia of Food – 5% of the world's population – 25% of the world's Food production

# South America

Food and energy exporter

Poor infrastructure which is slowly improving

Ample undeveloped farmland (current development not cost justified)

High risk of Government interference

Costly, difficult and complicated region to do business

Legal process is slow and inconsistent and is viewed as a guide and not an absolute standard

Volatile currencies

# Europe

## European Union

Food and energy importers

Aging, shrinking population

Expensive farmland – few transactions

Shrinking farm subsidies

Strong opposition to implementation of agriculture technology

## Eastern Europe

Food and energy exporters

Legal obstacles – no property protections

Extreme weather variations

Poor Infrastructure

Poor work ethic with little incentive to change

# Africa

Food and energy importers

Vast fertile undeveloped farmland with water availability

Poor infrastructure

Social structure (Tribal) and legal system flailed

Young and growing population (short life expectations)

Poor work ethic and lack of education

Corrupt business and government environment

Unbelievable potential unlikely to be unleashed for at least 2 generations



# Global Policies that will shape Agriculture the next 10 years

WTO

Currencies

Environmental Policies

Government Aid to Developing Countries

Inflation/Deflation

Continued increasing demand for Protein in  
Developing Countries (China and India)

# Row Crop Consolidation

## Factors to Consider:

- Demographics – Ave. Age of US Farmer is 58.
- Capital Requirements – Rising Input, Land, and Equipment Costs
- Farm Bill Changes -will the Loan and Direct/Counter Cyclical Payments Survive the next Farm Bill?
- Equipment size economics
- Input Cost advantages Large versus Small

# My View of the US Row Crop Situation and Producer in 2020

The average size of the US row crop producer will grow from approximately 3,000 acres to approximately 15,000/20,000 acres in 2020.

There will be a significant number of 50,000 acre plus Producers in 2020. These farms will be managed much like manufacturing businesses.

Equipment and input provider models will undergo significant changes.

Investors and Funds will have a larger but still insignificant ownership stake in farmland.

# Are Today's Commodity Prices Sustainable?

World's population growing 1.2% annually

World's demand for protein growing at 2.5% per capita annually (China at 8%)

Arable land is declining in China, India, and US

RATE of world grains yield increase in declining  
Currently 1-1.5% - will take the seed companies  
promised 3-4 % annual increase to meet the need



# World Protein Demand Growth

China – 8% annual growth in demand for meat  
(it takes 4#’s of grain to produce 1# of pork and  
2#’s of grain to 1# of poultry)

India – 55% of Hindu’s in India say they would  
eat more poultry or fish if they could afford it

Other income deficient areas (especially Africa  
and the Middle East) would eat more meat if  
they could afford it



# Longer Term Commodity Price Outlook

The world has sold off its key reserves. China used to carry a year's corn crop in reserve – it is now down to 20% of last year's crop.

India used to carry almost a year's reserve of wheat – that is down to 35%.

China and the US carried 50% of a year's cotton crop – that is completely gone.

Our markets have predictably reacted to the above by huge increases in volatility. We will need to relearn how to trade weather markets.

# Longer Term Commodity Price Outlook Continued

World Demand for food is increasing 3 to 4% annually.

China's middle class is growing by 40 to 50 million people annually which should continue to drive this demand for the next decade.

India's middle class growth should take off in the next 5 years as China's Income grows and hands off the lower paying jobs to India.

Bottom line is that food consumption growth shows no slowing down for the next 10 years.

# Summary of Presentation

Current and slightly higher commodity prices are likely in our future – excepting a 9/11 event

Farming row crop operations will grow exponentially. The business will need a skill set like a CEO of a manufacturing company

Farm Bill and Tax Policy will change dramatically

Input and Equipment providers will change their business models to adapt to the larger farms

Farming will become increasingly global

# Short Term Commodity Recommendations

Corn – I would price corn starting at \$5.50 and have 75% priced at \$6.00.

Soybeans have more upside as China needs are great. I would start pricing at \$12.00 and have 50% priced at \$13.00. Writing \$13.00 calls for a dollar might prove profitable.

Wheat – I would suggest having 50% of your spring wheat priced at \$8.00. Wheat prices will attract new acres in the US and ROW

Cotton – I would price 25% at \$1.00, 25% at \$1.10, 25% at 1.20 holding the balance. Could see a repeat of 2010



**DTN CONFERENCE  
CHICAGO  
DECEMBER 2010**

Questions and Discussion

Gary Taylor