



FCA Board Meeting June 2019

Quarterly Report on FCS Condition June 13, 2019

**Dennis A. Shields
Hal Johnson**





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Commodity price outlook
 - Farm programs and other government assistance
 - Weather, trade, and other risks ahead
- ▶ FCS Condition and Performance
 - System growth
 - Loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy



Weather moved the markets in May



Corn futures



Soybean futures



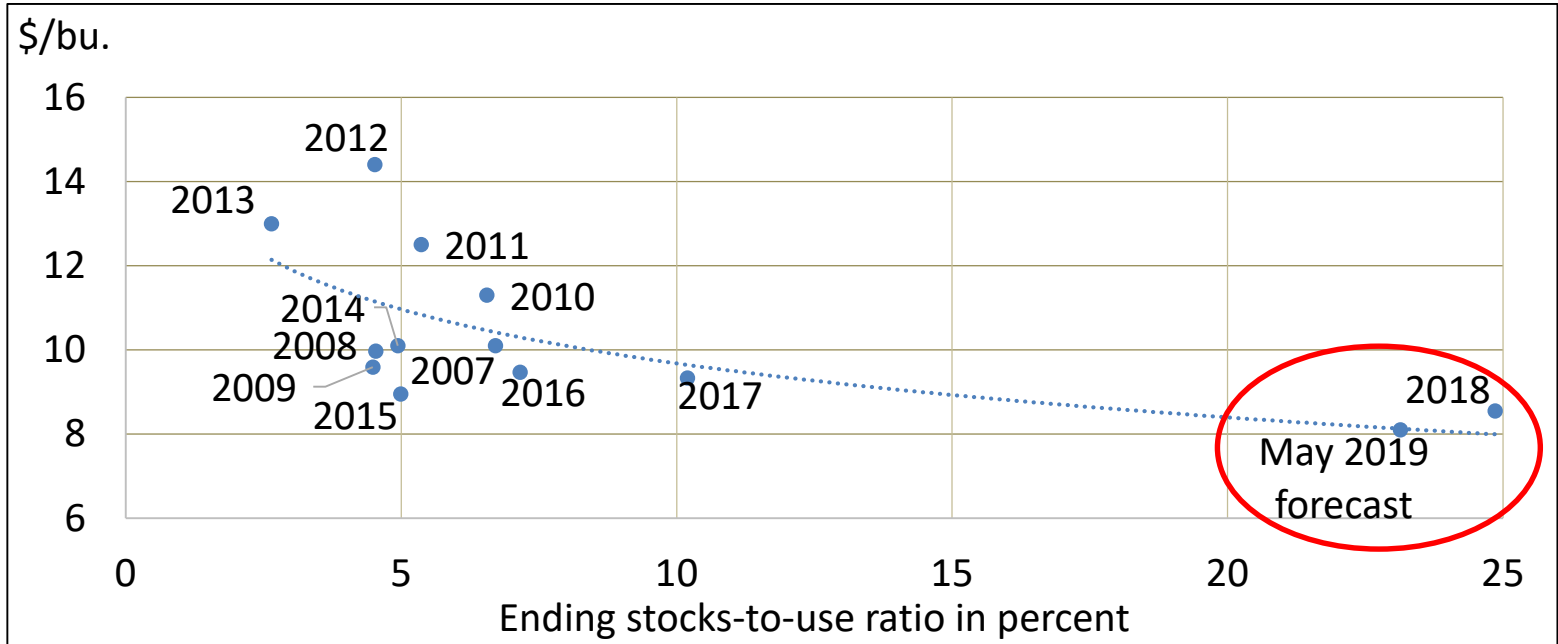
Source: CME Group. Note: December 2019 corn futures and November 2019 soybean futures.



Soybean stocks-to-use ratio to remain high



U.S. soybean price and stocks-to-use ratio



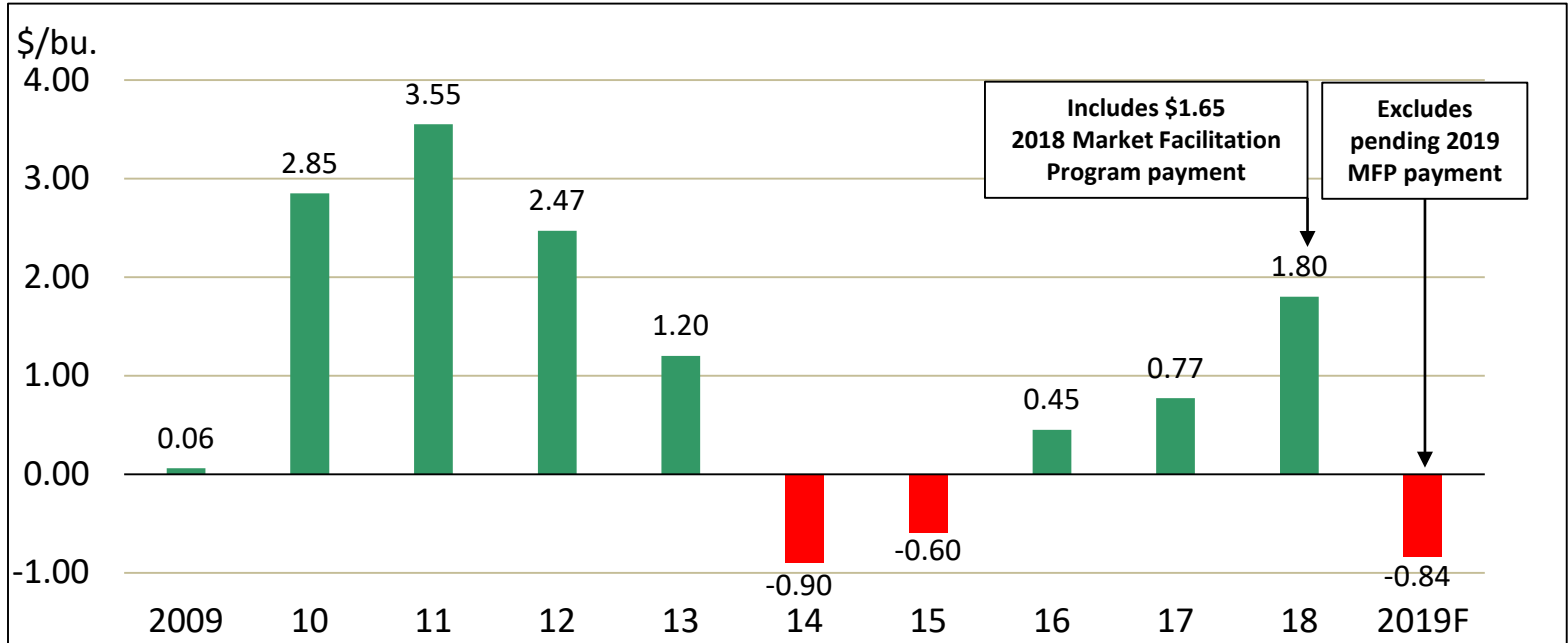
Source: FCA using USDA data (May).



Soybean margins to turn negative without Market Facilitation Program payments



Iowa soybean margins



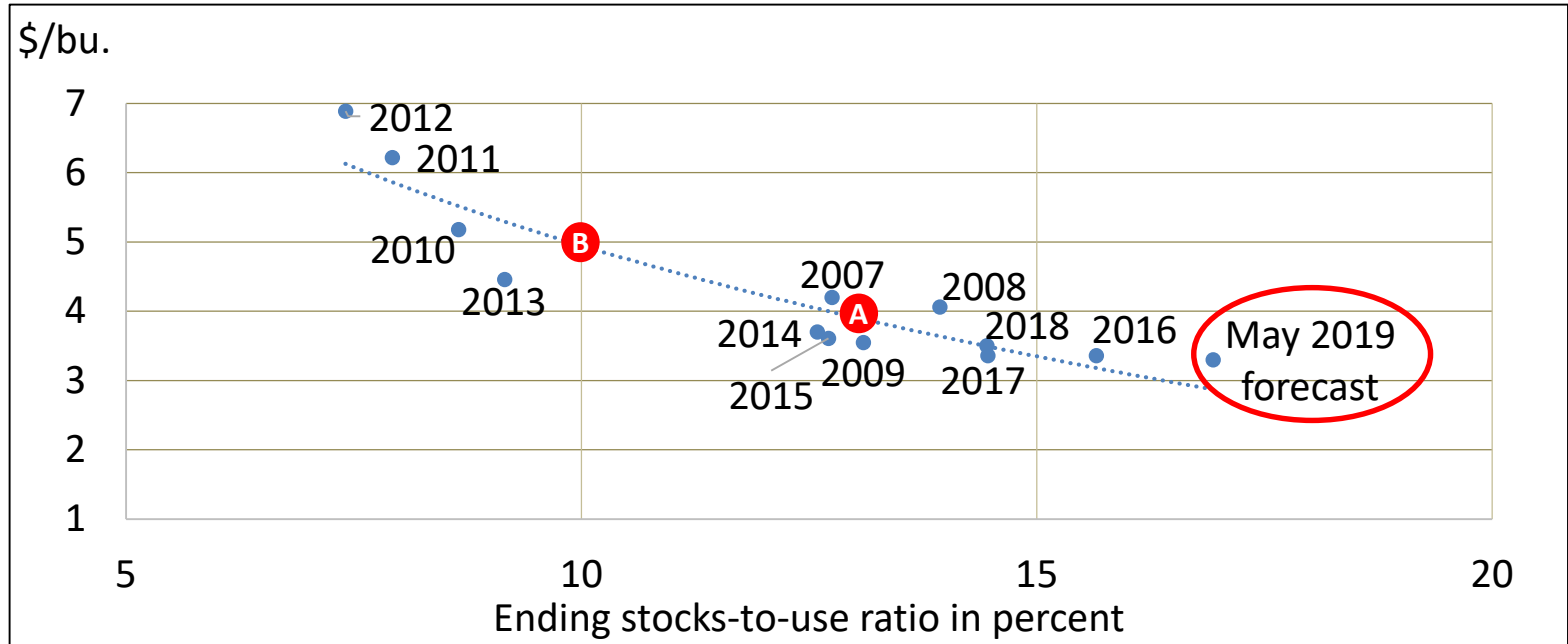
Source: FCA using USDA (May) and Iowa State University data.



Corn stocks-to-use ratio could decline sharply from initial forecast



U.S. corn price and stocks-to-use ratio



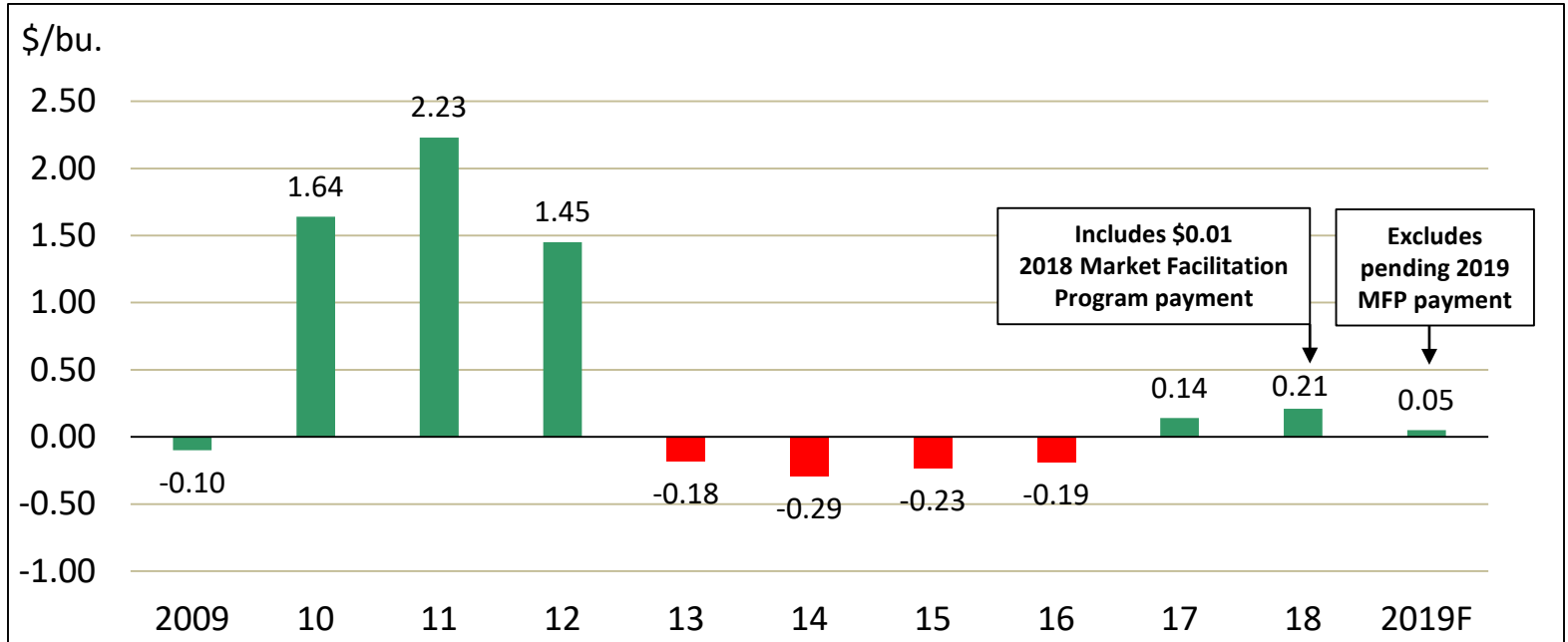
Source: FCA using USDA data. Note: 2019 production scenario A=- 0.9 mil. bu. and B=-1.4 bil. bu. from May forecast. 7



Corn margins to remain near break-even levels



lowa corn margins



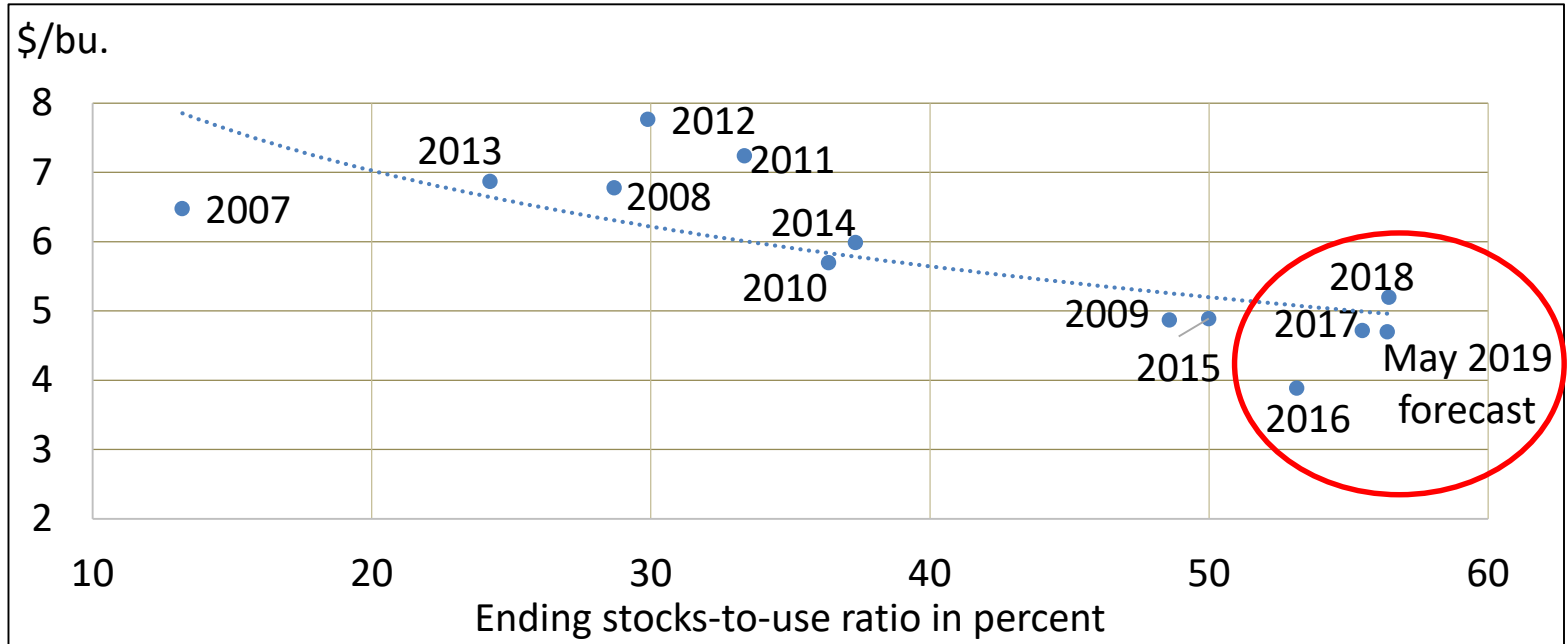
Source: FCA using USDA (May) and Iowa State University data.



Wheat stocks are also large relative to use



U.S. wheat price and stocks-to-use ratio



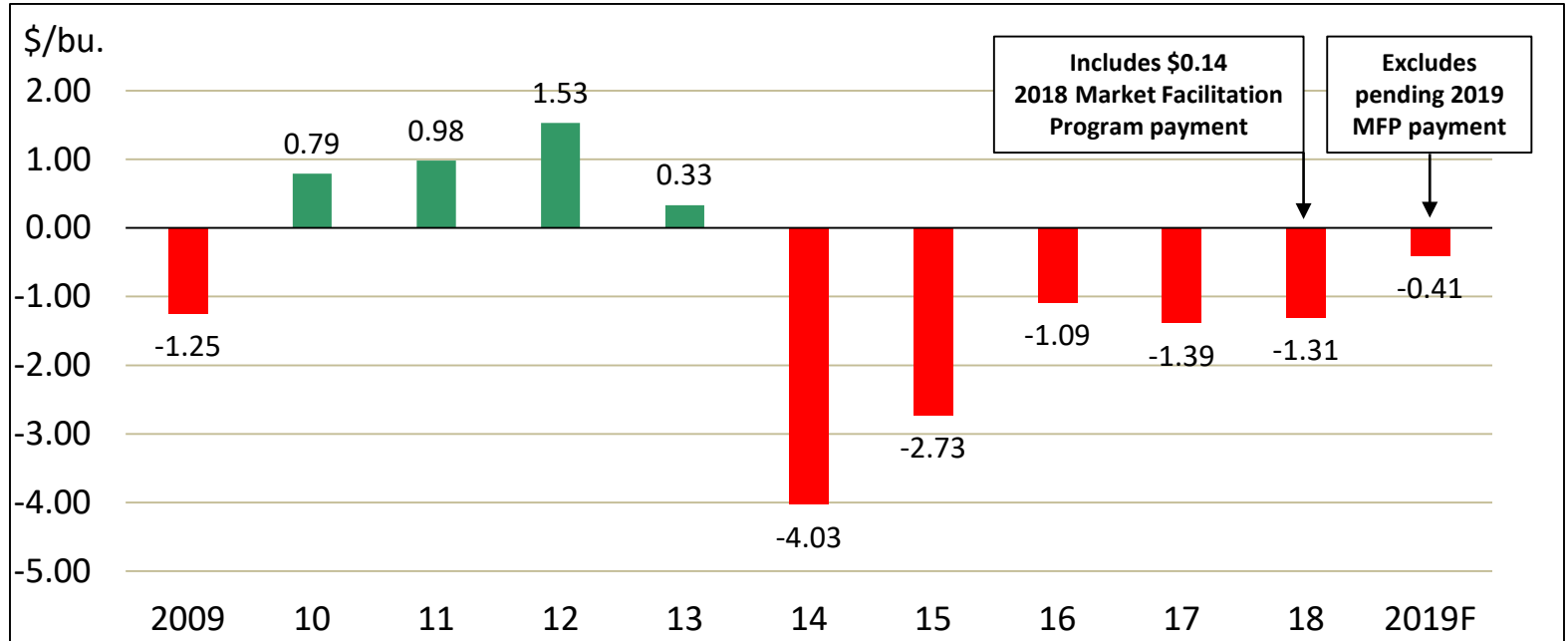
Source: FCA using USDA data (May).



Wheat margin loss continues to narrow



Kansas wheat margins



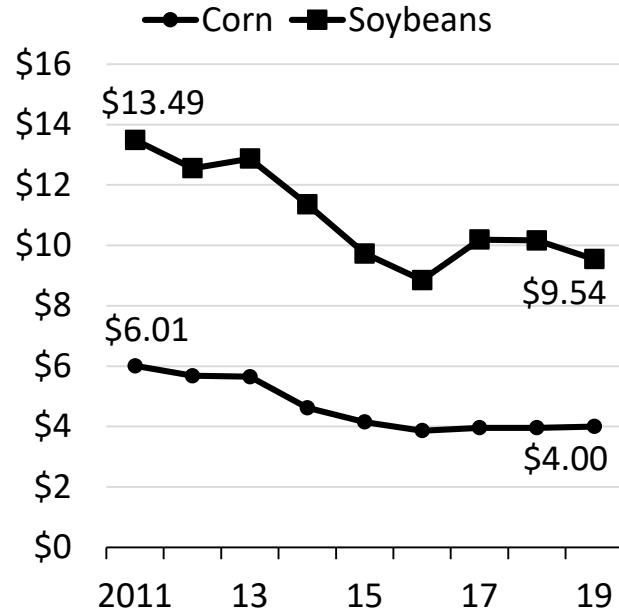
Source: FCA using USDA (May) and Kansas State University data.



Weather drives crop insurance and planting decisions



Projected crop insurance price (\$/bu.)



Source: USDA/RMA.

Expected net returns in 2019 (\$/acre)

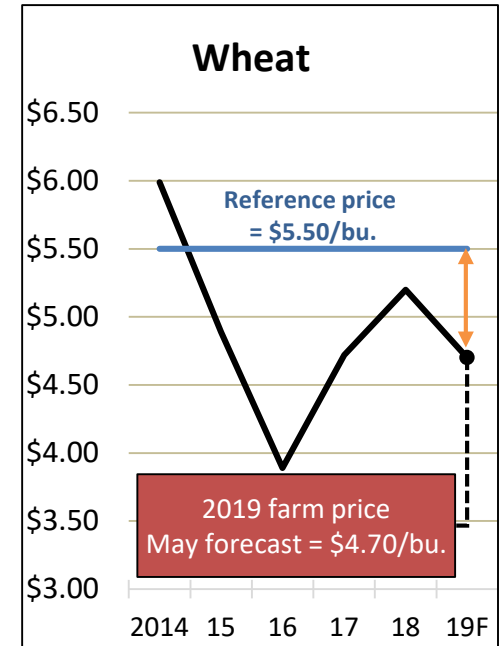
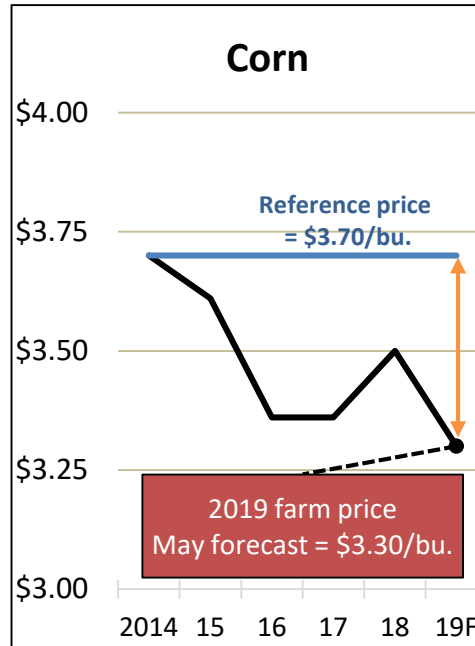
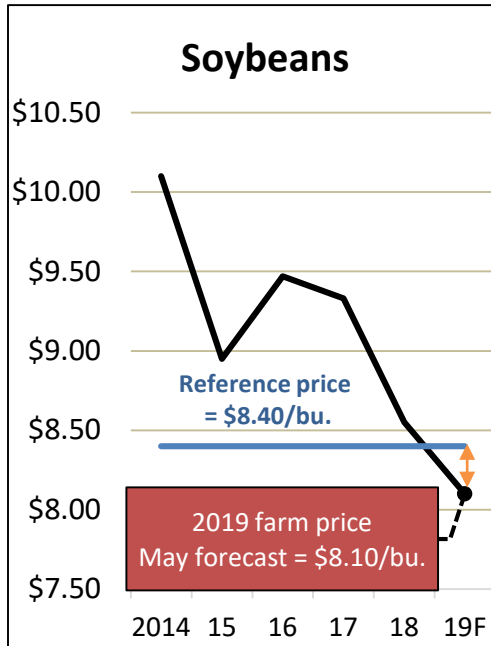
Scenario: Low corn yield and prices below projected levels	Corn	Soybeans
Prevent plant indemnity (after weed control) <u>OR</u>	\$331	\$252
Crop revenue	\$581	\$475
+ crop insurance indemnity	+ \$41	+ 0
- non-land costs	- \$469	- \$256
= expected return before land cost	= \$153	= \$219

Source: Farmdoc daily, May 14, 2019.



Farm programs provide *some* downside price protection in 2019

Part of the **gap** between the Farm Bill reference price and the season-average farm price is paid under Price Loss Coverage



Source: FCA using USDA prices (May) and statutory reference prices.

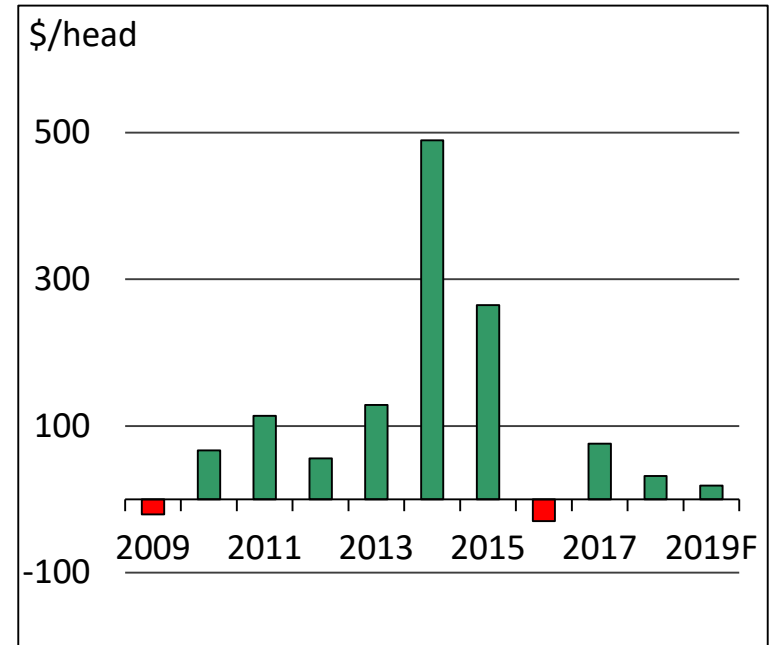


Cow-calf margins to remain slightly positive

- ▶ High hay costs limit cow-calf margins; May 1 hay stocks down nearly one-third from 2014-18 average
- ▶ Recent export demand strength expected to continue in 2019
- ▶ Domestic beef demand remains healthy



Average cow-calf returns



Source: Informa Economics.

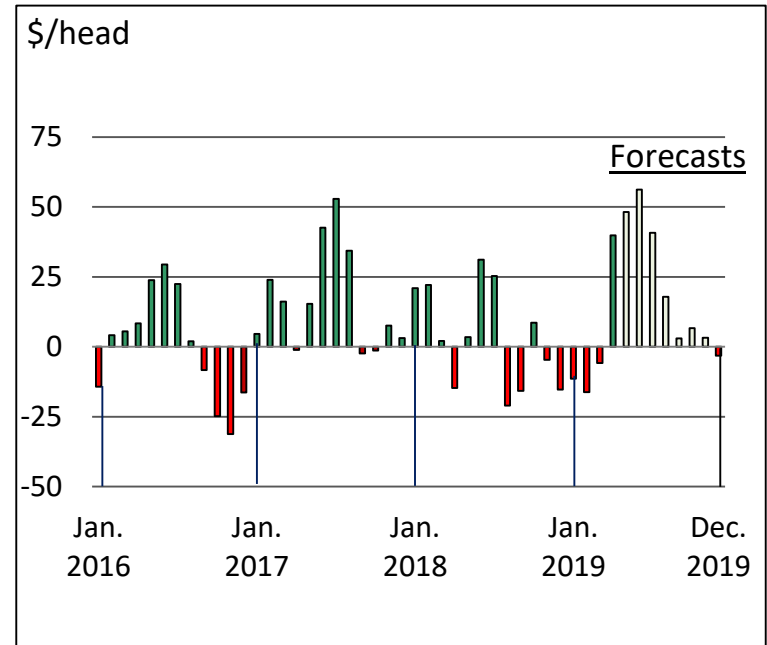


Hog producers return to profitability

- ▶ African Swine Fever is sharply reducing China's hog inventory
- ▶ Pork exporting opportunities lead to market volatility and hedging opportunities
- ▶ U.S. guards against adverse impacts of a potential outbreak



Hog producer margins



Source: Informa Economics.

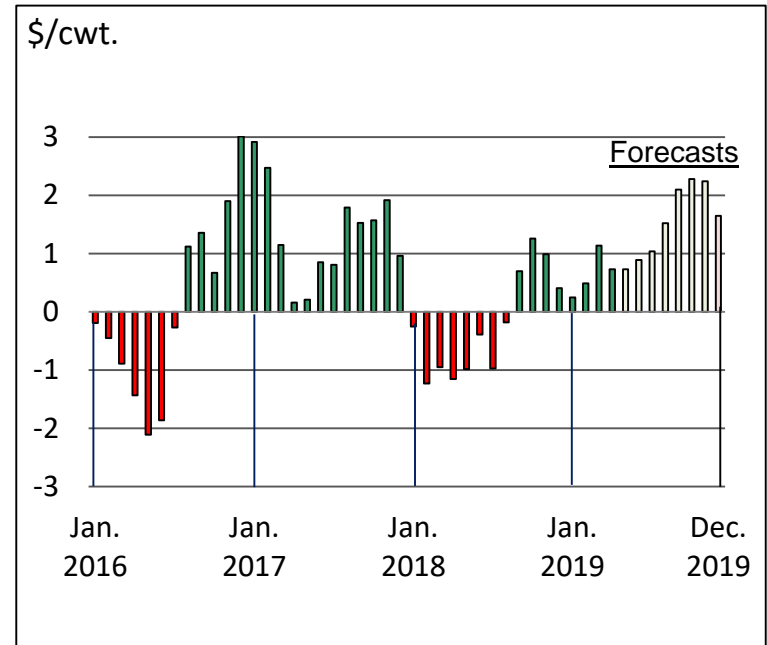


Dairy margins improve after running in the red in 2018

- ▶ Slowdown in production growth has lifted prices
- ▶ Margins are running slightly above breakeven
- ▶ High-cost producers remain under pressure



Dairy producer margins



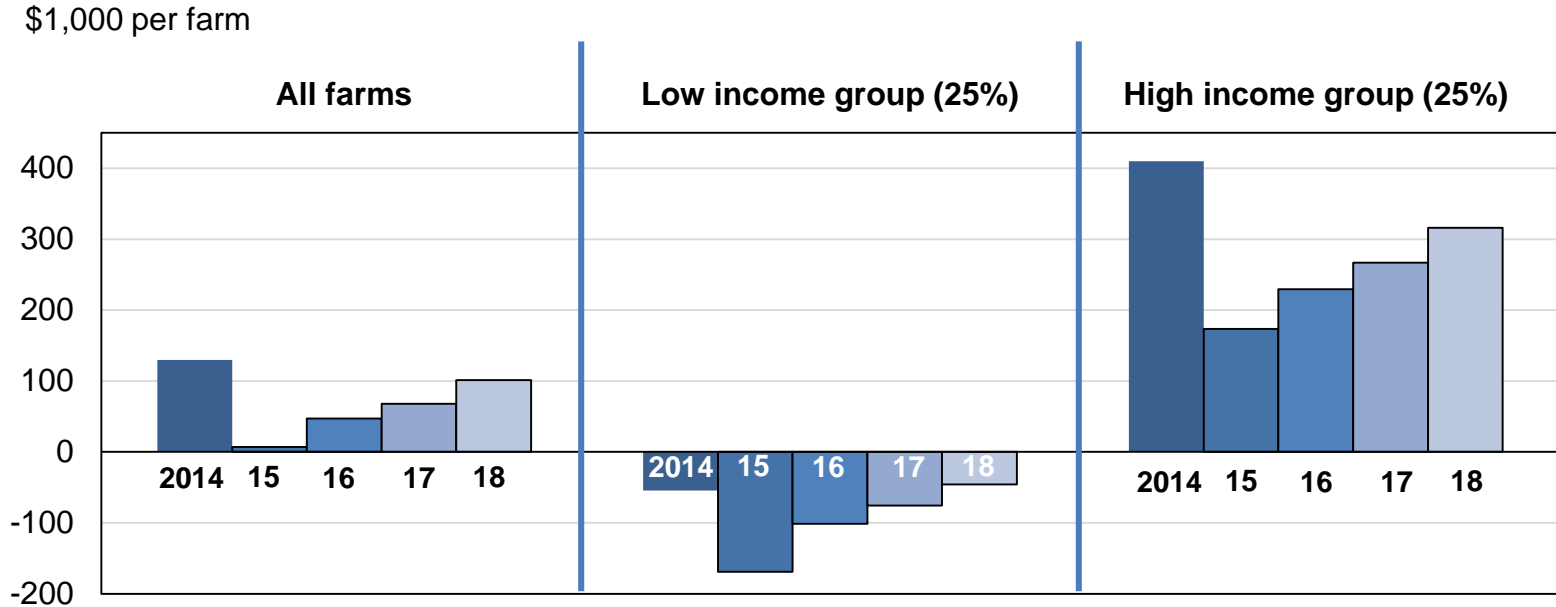
Source: Informa Economics.



Kansas farm management data indicate contrasting returns by income group



Average net income per farm

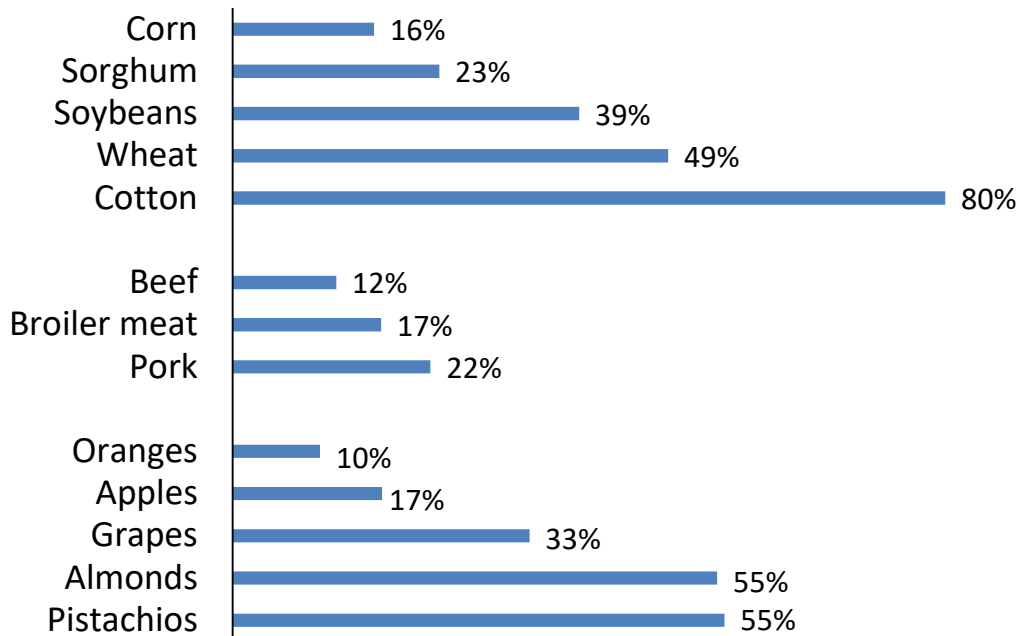


Source: Kansas Farm Management Association, May 2019.



U.S. export intensity is relatively high for key agricultural commodities

U.S. exports as a share of production in 2018



Top 3 markets

Mexico, Japan, S. Korea
China, Japan, Spain
China, Mexico, Netherlands
Japan, Mexico, Philippines
Vietnam, China, Turkey

Japan, S. Korea, Mexico
Mexico, Hong Kong, Canada
Japan, Mexico, Canada

S. Korea, Canada, Japan
Mexico, Canada, India
Canada, Mexico, S. Korea
India, Spain, Hong Kong
Hong Kong, Germany, Belgium

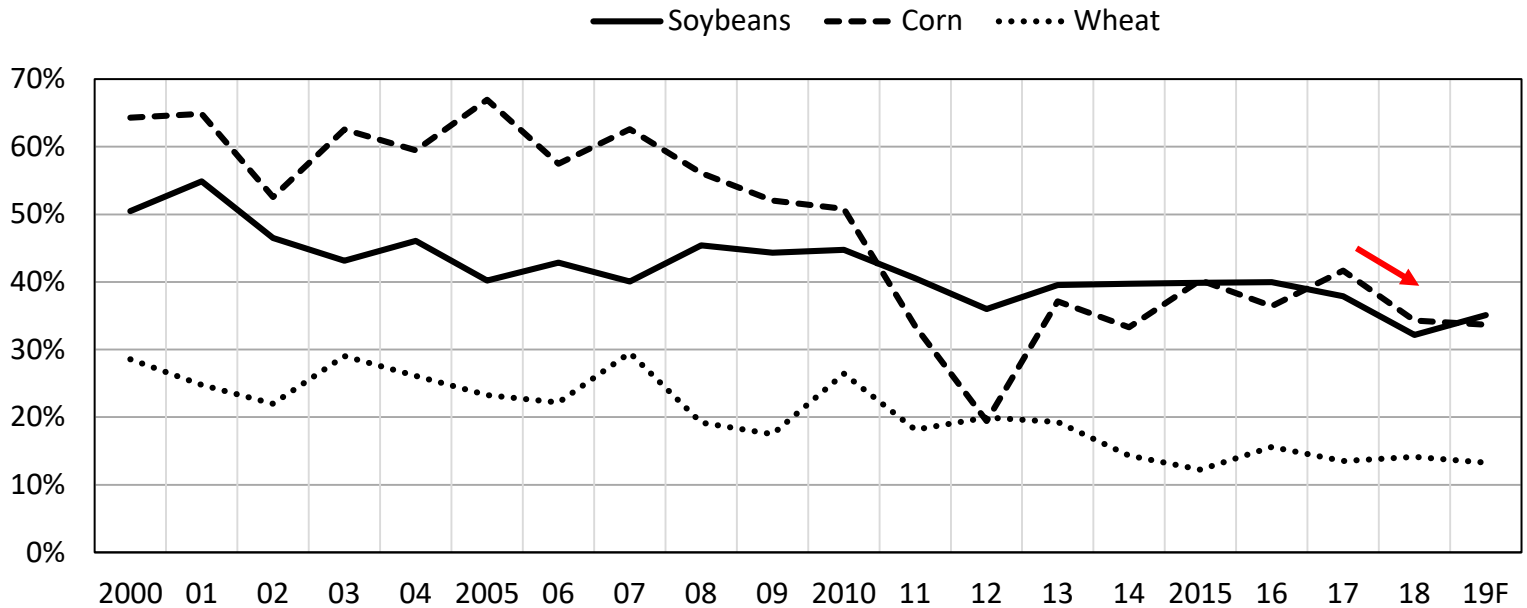
Source: USDA/FAS Production, Supply and Distribution; and Global Agricultural Trade System.



Waning competitiveness: U.S. share of global exports declined in 2018



U.S. share of global exports by crop year



Source: USDA/FAS Global Agricultural Trade System.



Concluding comments

- ▶ Weather in 2019 creates production risk and pricing opportunities
- ▶ Additional trade-related payments and disaster assistance form a bridge to next year's loan renewal season
- ▶ Low-cost operations survive and thrive in a low price environment
- ▶ Marginal producers may not survive, even with support

Risks ahead

- ▶ U.S. animal disease outbreak and market volatility
- ▶ Resilience of U.S. and global economic growth amid trade issues





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
March 31, 2019

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System growth
- ▶ Portfolio credit quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

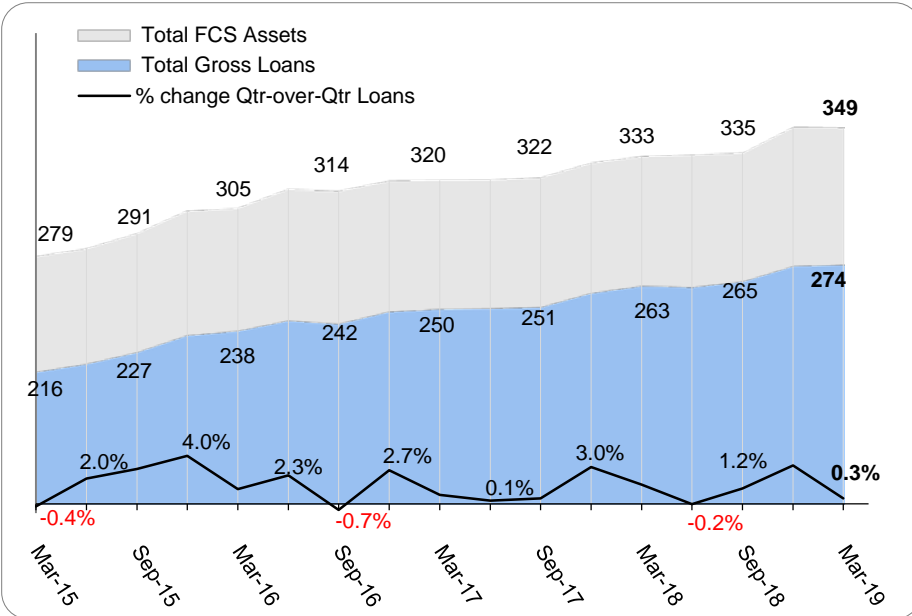




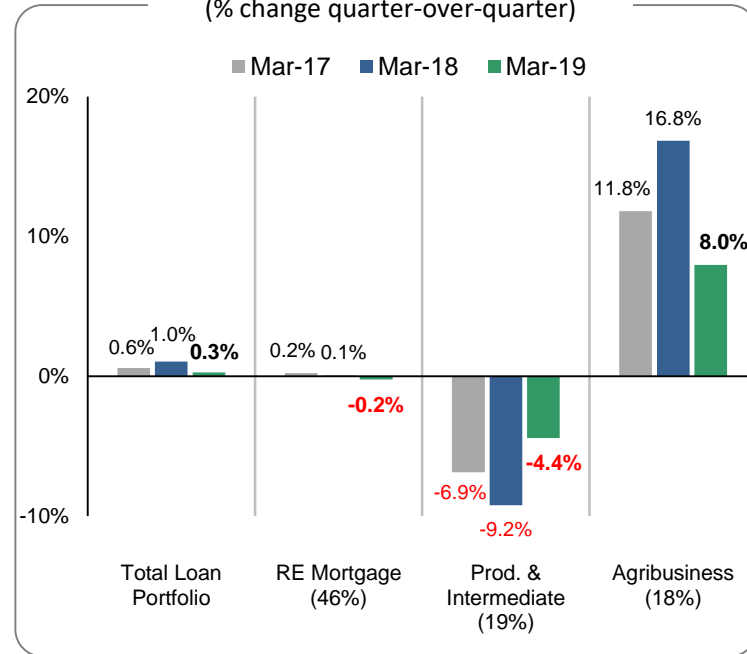
System reports little growth in the 1st quarter, seasonal factors drive financing needs



Total Assets 3/31/19	\$348.7	-0.1% Qtr	Gross Loans 3/31/19	\$274.2	+0.3% Qtr
	billion	+4.7% YOY		billion	+4.4% YOY



Loan Growth by Loan Type (% change quarter-over-quarter)



Source: FCS Information Statements



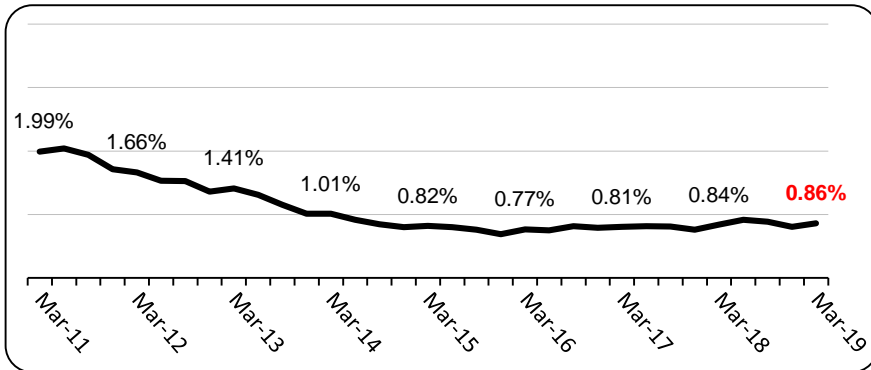
Credit risk rises as agricultural producers face continued low prices and market uncertainty



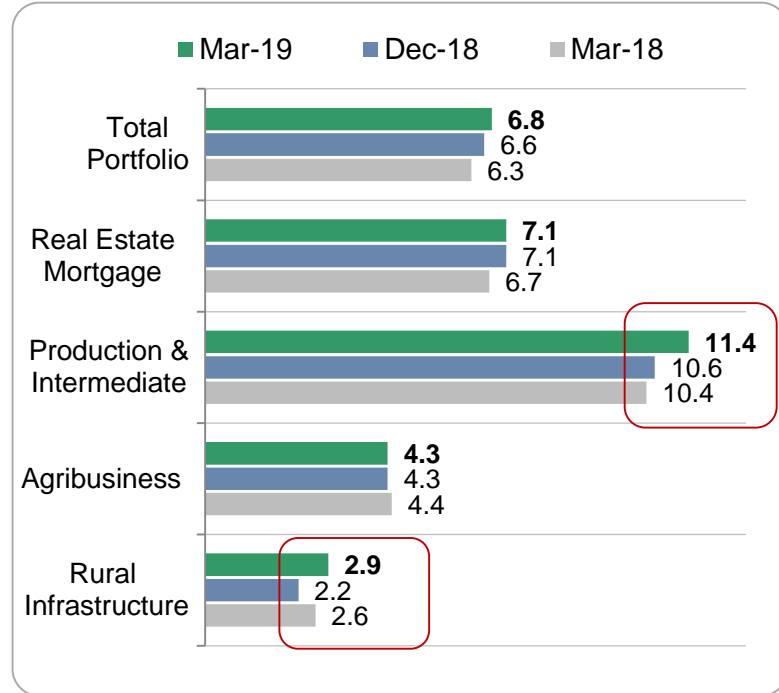
Nonperforming Loans	\$2.365 billion	Qtr chg + \$167M up 7.6%
		Yr. over Yr. + \$156M up 7.1%
Delinquencies ⁽¹⁾	0.48%	YE '18 0.31%
		Q1 '18 0.34%

(1) accruing loans 30 days or more past due

Nonperforming Loans as a % of Gross Loans



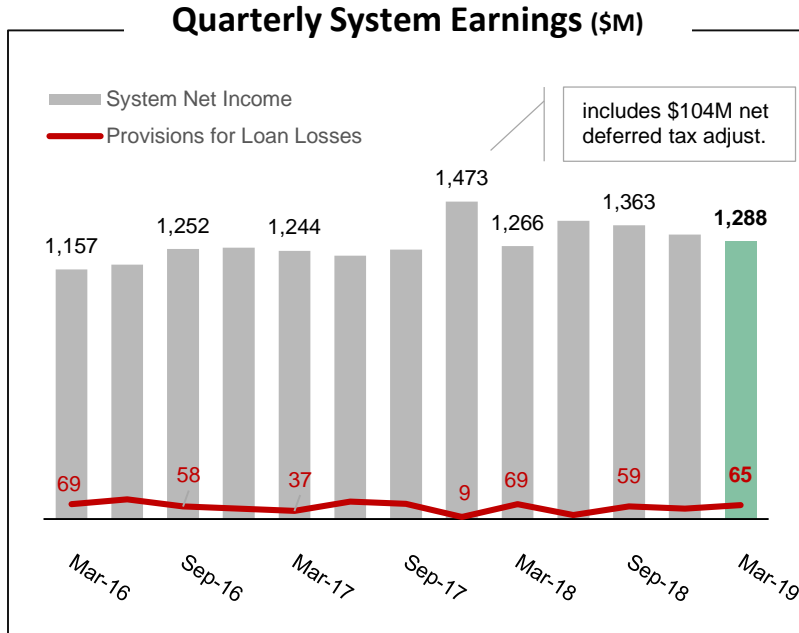
% of Loans Classified less than Acceptable



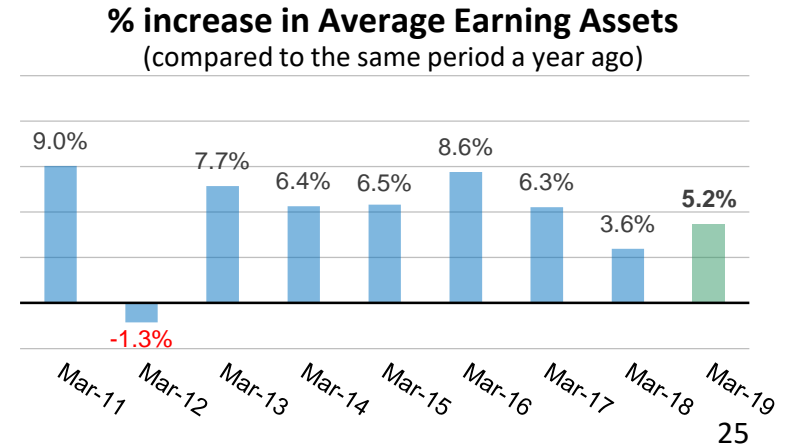
Source: FCS Information Statements



System earning remained strong in the 1st quarter; interest spreads continued to compress



Net Interest Spread (YTD annualized)	Q1'19 2.00%	Q1 '18 2.15%
Net Interest Margin (YTD annualized)	Q1'19 2.40%	Q1 '18 2.44%



Source: FCS Information Statements



Strong earnings support continued capital growth

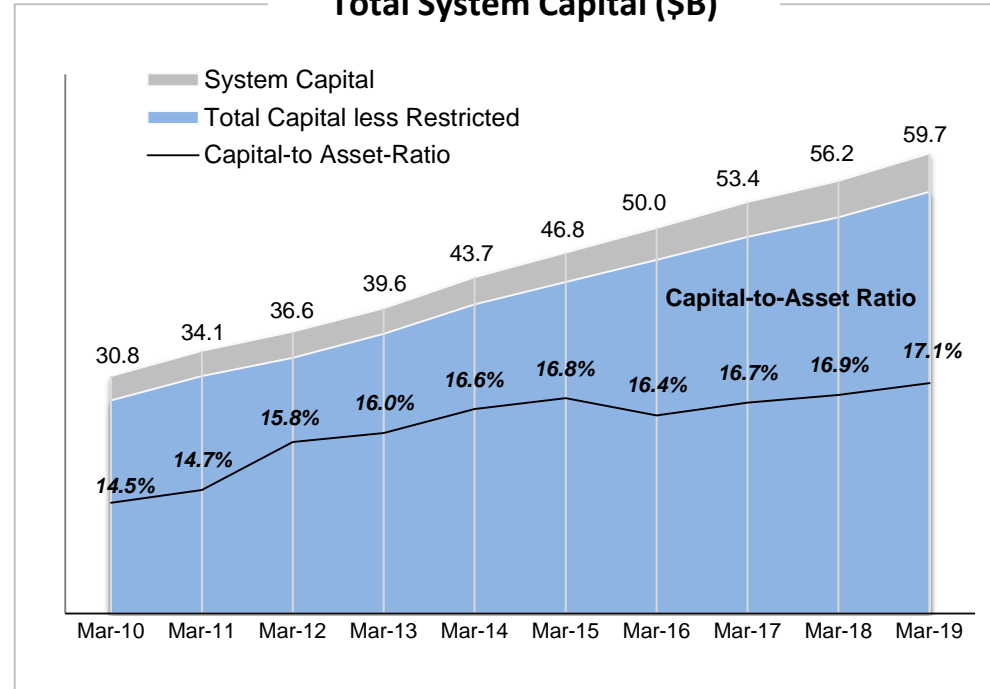
Capital and Liquidity

- as of March 31, 2019 -

- ▶ Retained earnings as a percentage of total capital equaled 79.4% of total capital.
- ▶ The System's liquidity position equaled 177 days of coverage.
- ▶ Days of available liquidity for the 4 funding banks ranged from 149 to 227 days.



Total System Capital (\$B)



Source: FCS Information Statements

Note: Restricted capital represents capital associated with the Insurance Fund.



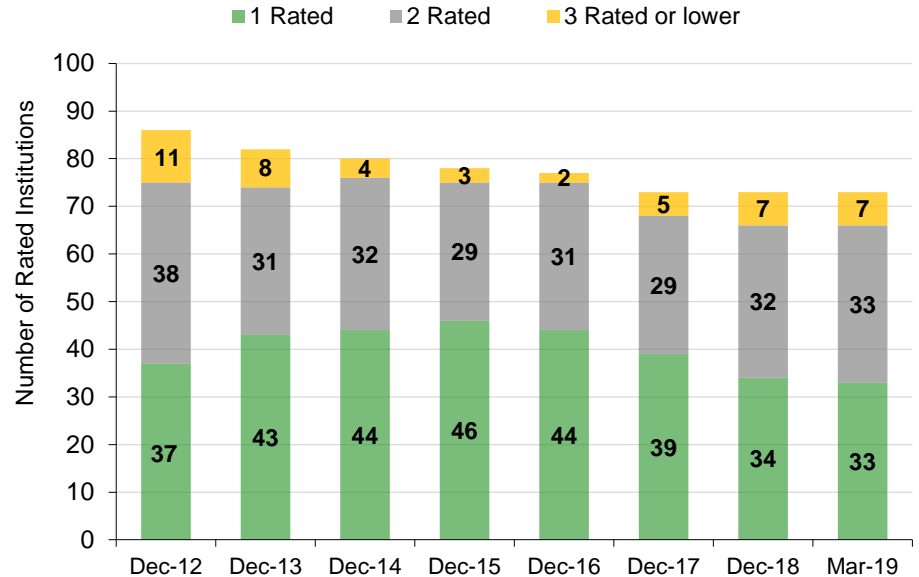
System FIRS ratings



FIRS Ratings

- ▶ Composite FIRS ratings reflect the System's solid financial performance and acceptable portfolio credit quality
- ▶ Over 90% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- ▶ Institutions rated 3 or lower account for less than 2.5% of System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points

- ▶ Challenges for the farm economy:
 - Volatile markets, trade issues, weather, low margins, production levels and existing supplies
- ▶ Declining credit quality underscores the significant operating challenges facing System borrowers in many ag sectors
- ▶ The System remains financially sound and strongly capitalized
- ▶ System institutions have the risk-bearing capacity to support agricultural producers





Questions



THANK YOU