

AgriBank^{FCB}

SERVING THOSE WHO SERVE
RURAL AMERICA



Interest Rate Situation and Outlook

Jerry A. Fenner, Director A/L Risk
Management



Disclaimer

The views I will express today are my own and do not necessarily reflect the positions of AgriBank, FCB or the Farm Credit System.

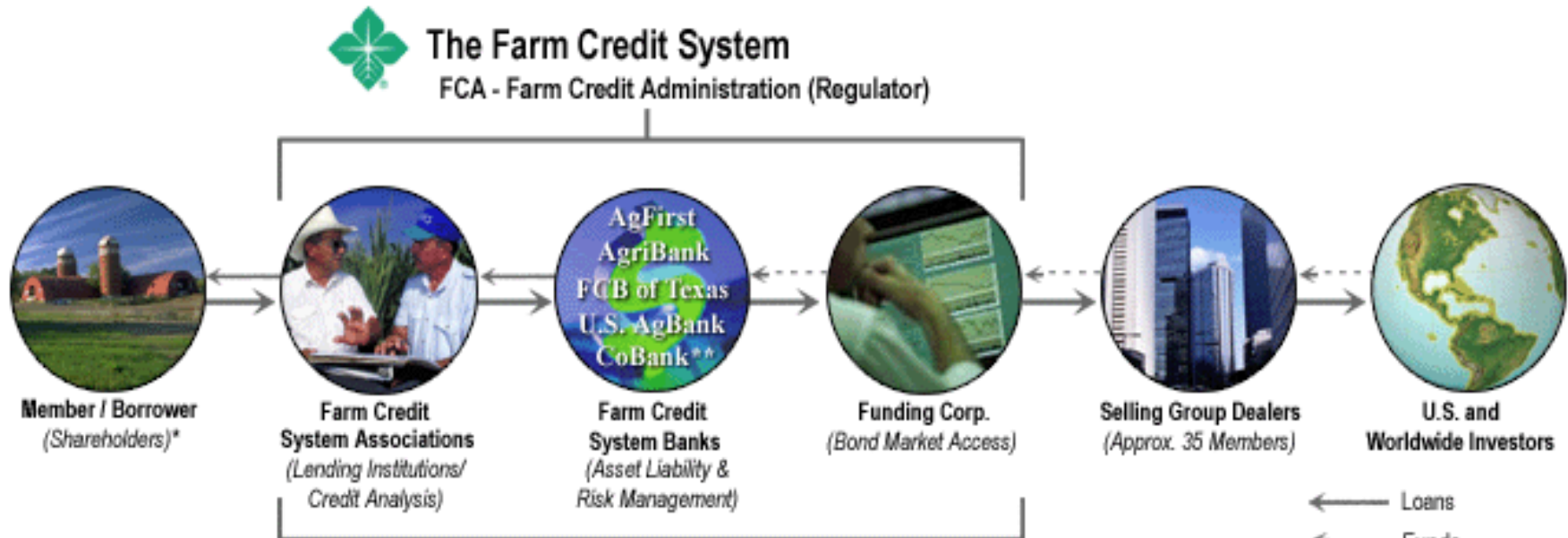


AgriBank Background

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The Farm Credit System



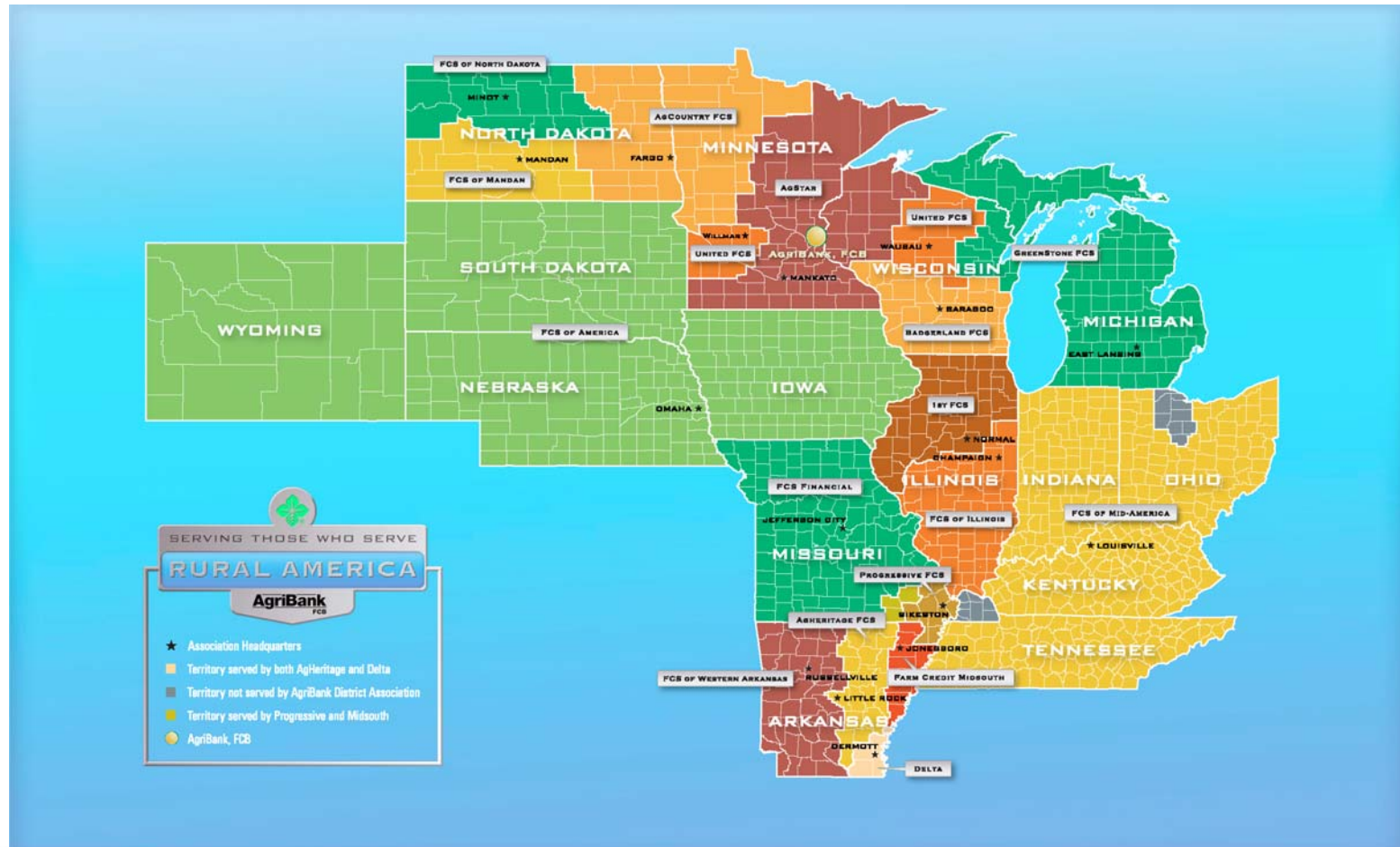
* farmers, ranchers, rural homeowners, ag cooperatives, rural utility systems & agribusiness

** CoBank has lending authority to Associations within its District as well as nationwide lending authorities to agricultural cooperatives, rural utilities and other eligible borrowers



AgriBank District

- AgriBank is one of five banks in the Farm Credit System, serving associations that serve agriculture and rural America in the upper Midwest.



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Select Balance Sheet Components



AgriBank Loan Assets - September 30, 2010

(million \$)

	District Retail	AgriBank View
Total Variable	\$20,297	\$17,700
Short Fixed	3,337	2,879
Prepayable < 10 Yrs	19,376	17,078
Prepayable >10 Yrs	8,895	7,861
Prepayable After Lockout	5,042	4,510
Not Freely Prepayable	3,476	3,087
1 Year and Hybrid ARMs	3,074	2,704
Leases	965	837
Other	358	325
	\$64,820	\$56,982
 Prepayable Fixed Rate Loans	 36,387	 32,153

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Select Balance Sheet Components

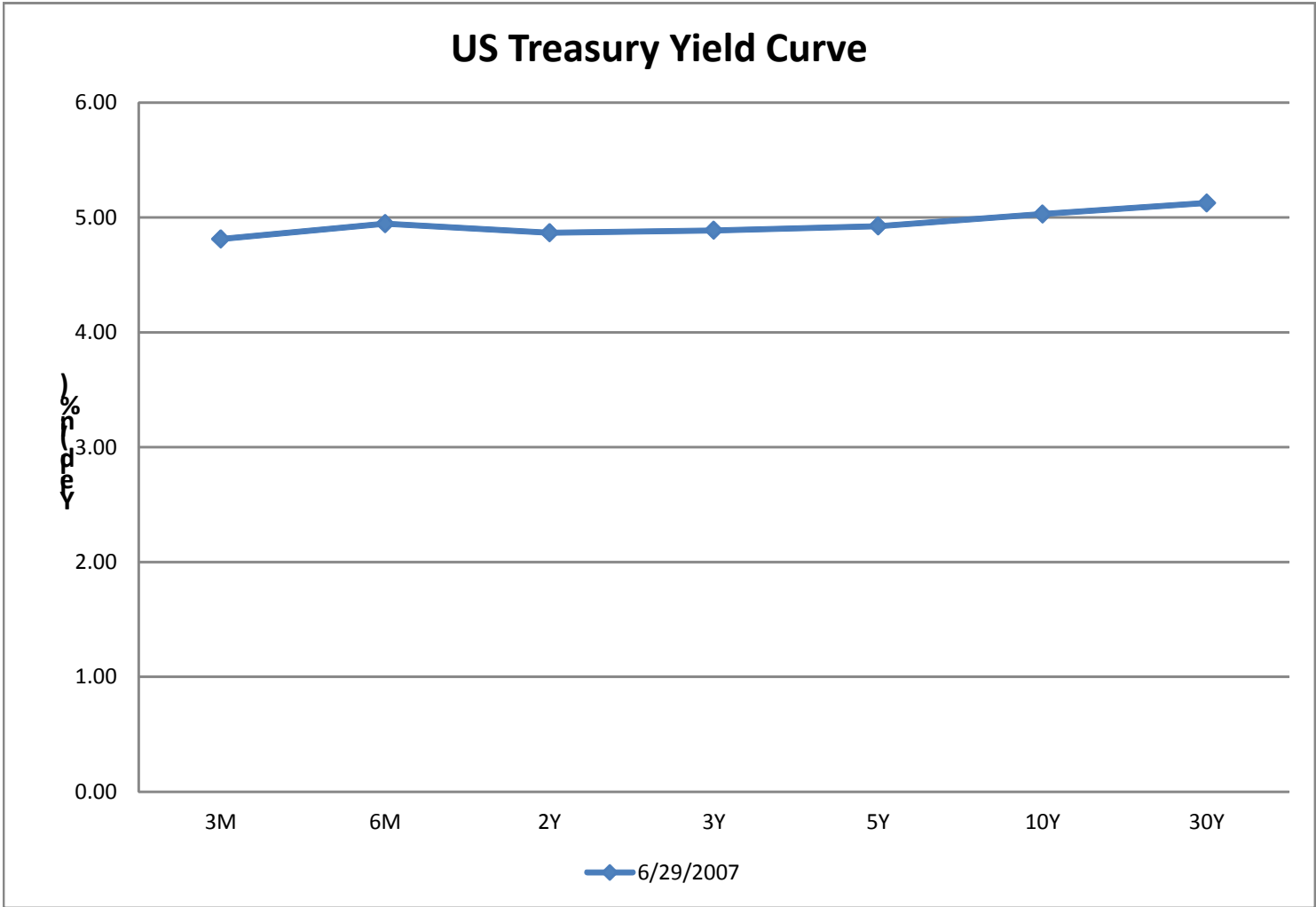


AgriBank Debt and Equity - September 30, 2010 (million \$)

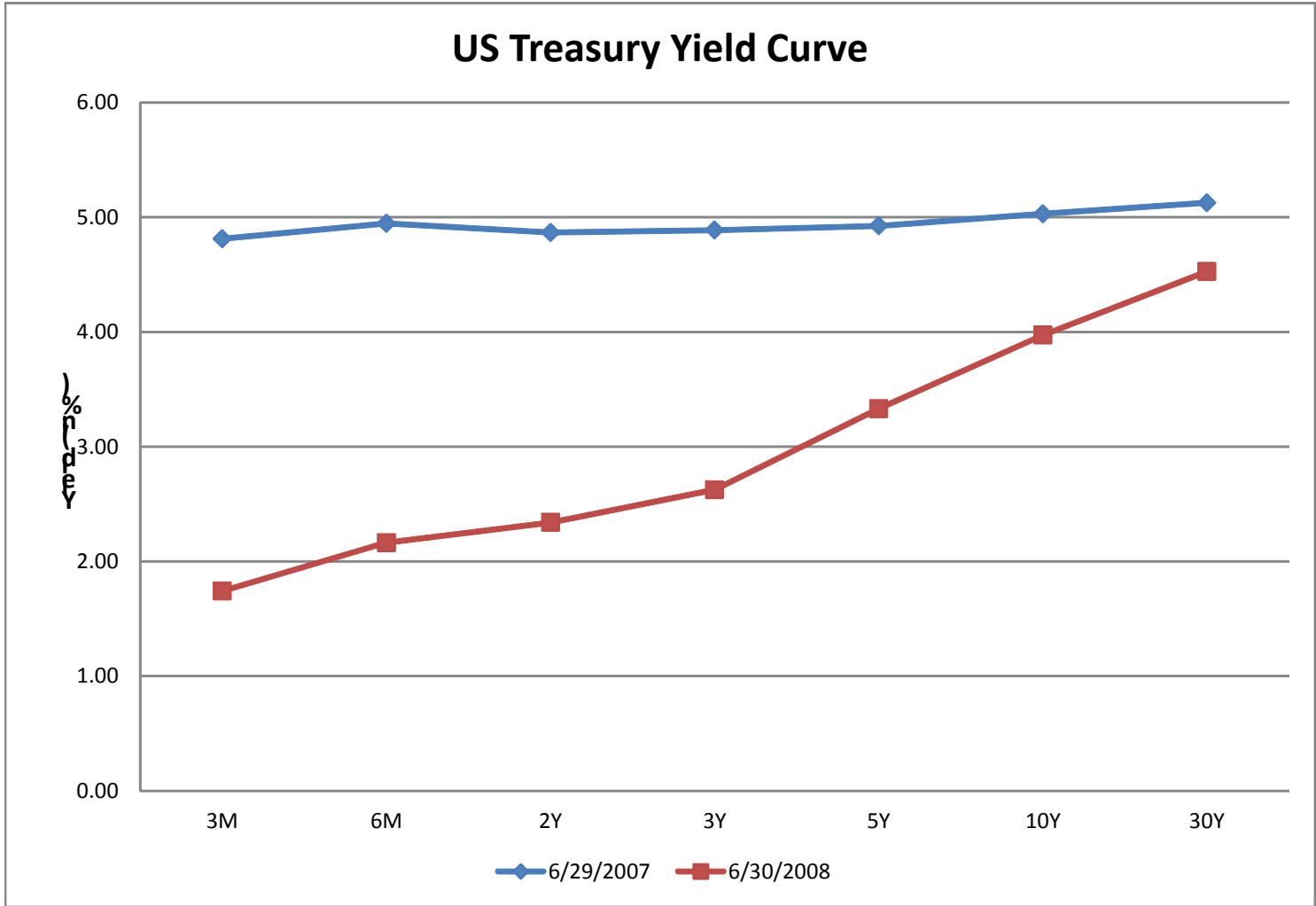
Floating Rate	22,519
Short Fixed Rate	1,515
Fixed Rate Non-Callable	10,644
Fixed Rate Callable	18,459
Total Debt	<hr/> 53,136
Equity	3,618



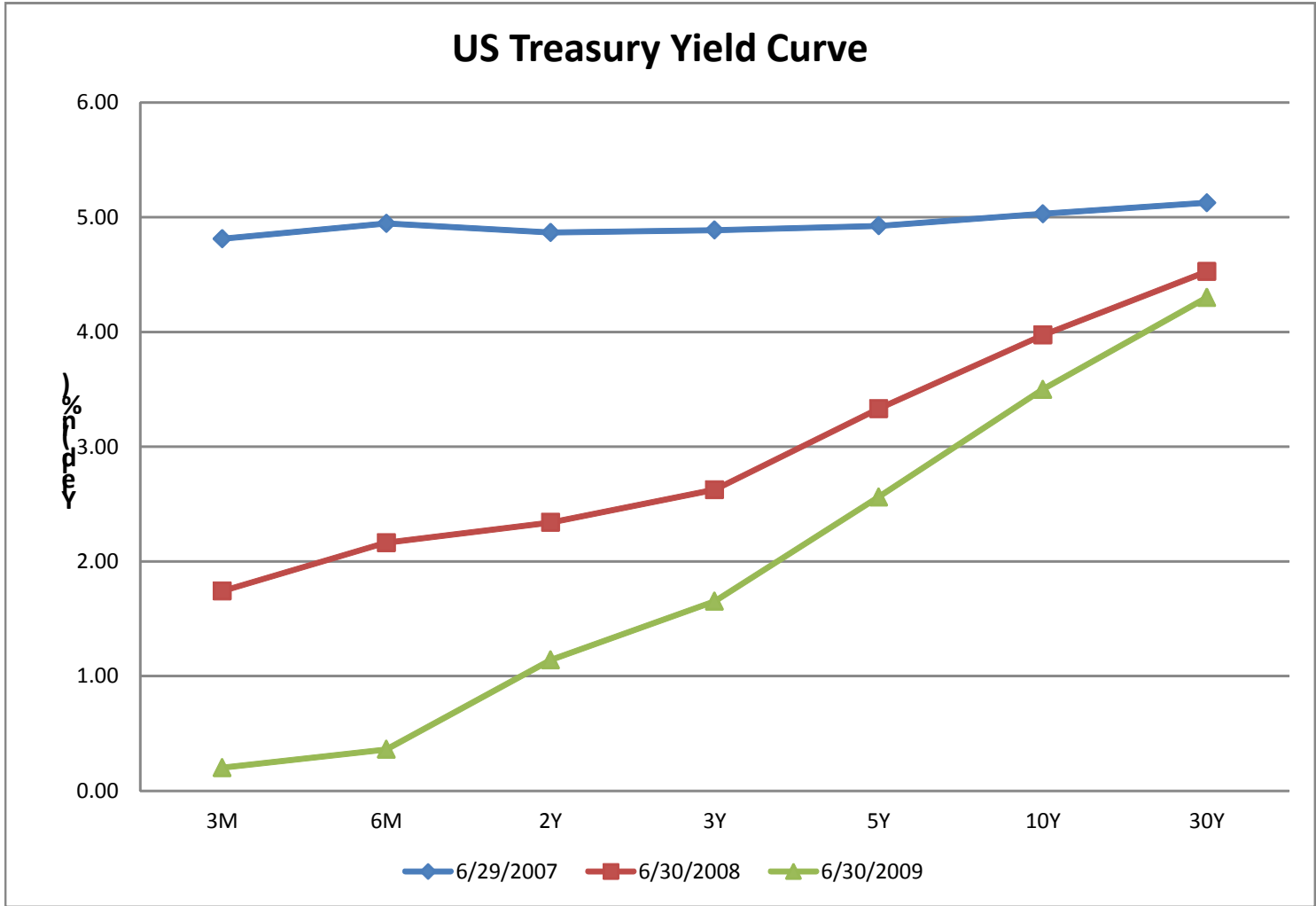
Interest Rates – Quick Look Back



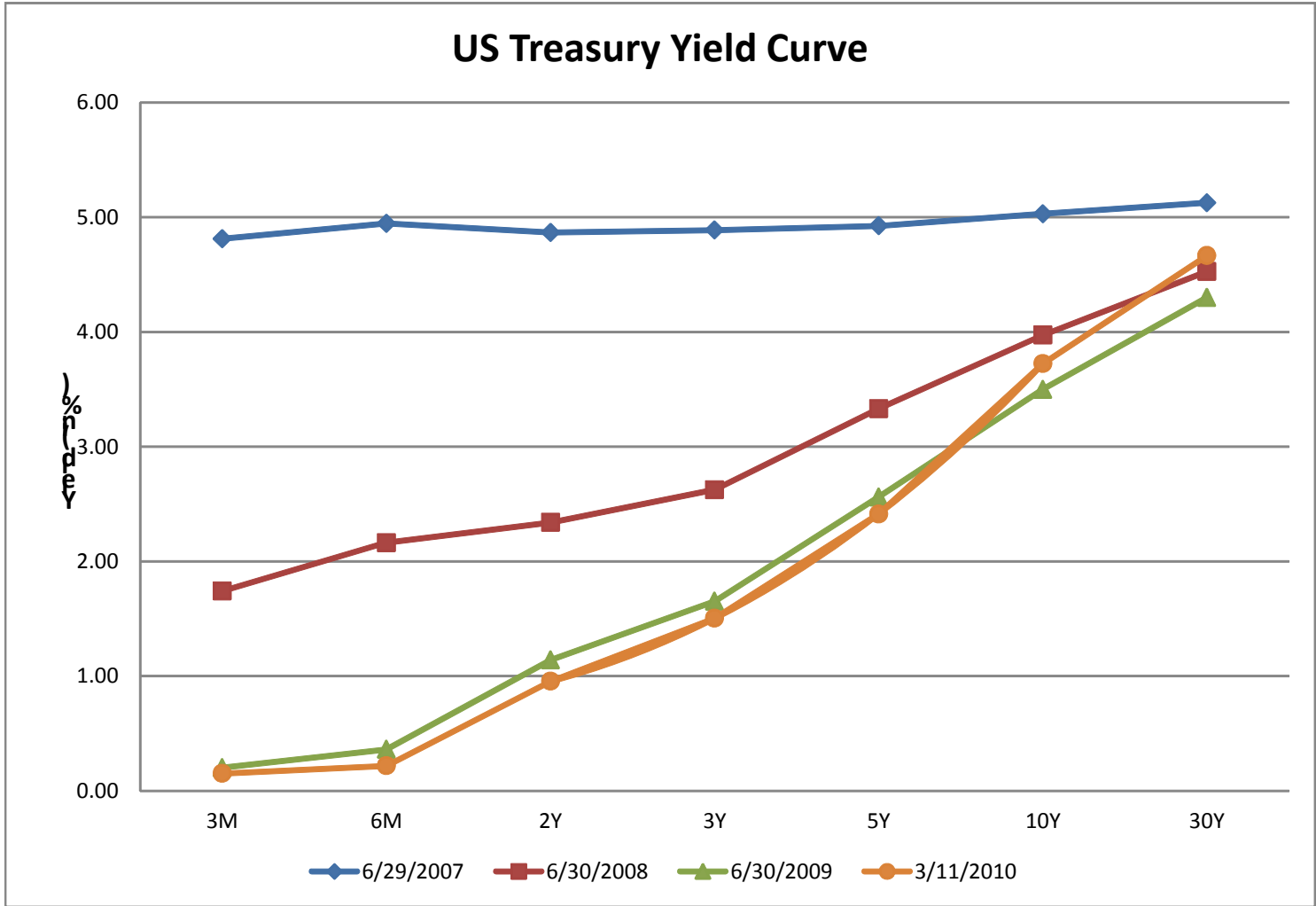
Interest Rates – Quick Look Back



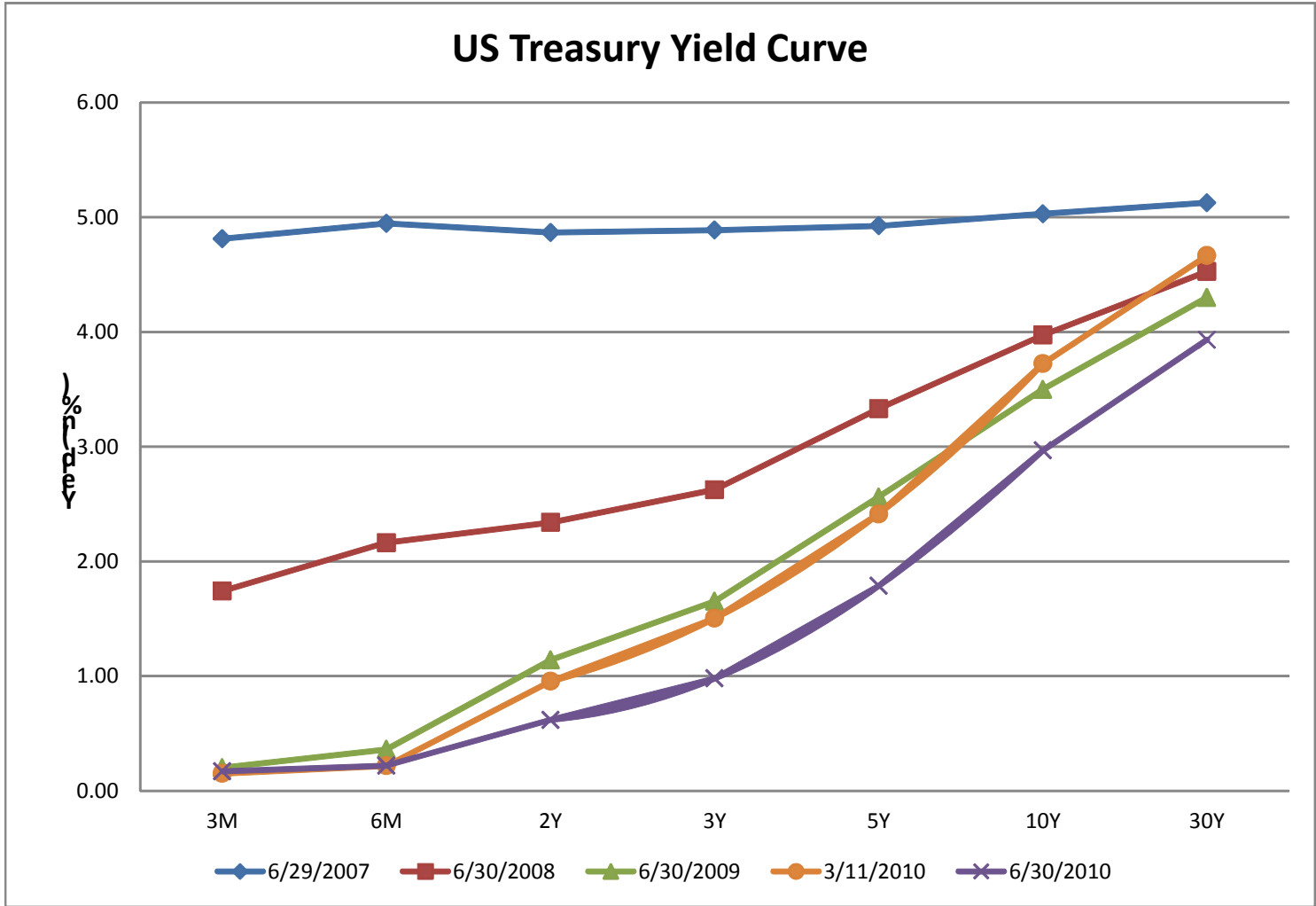
Interest Rates – Quick Look Back



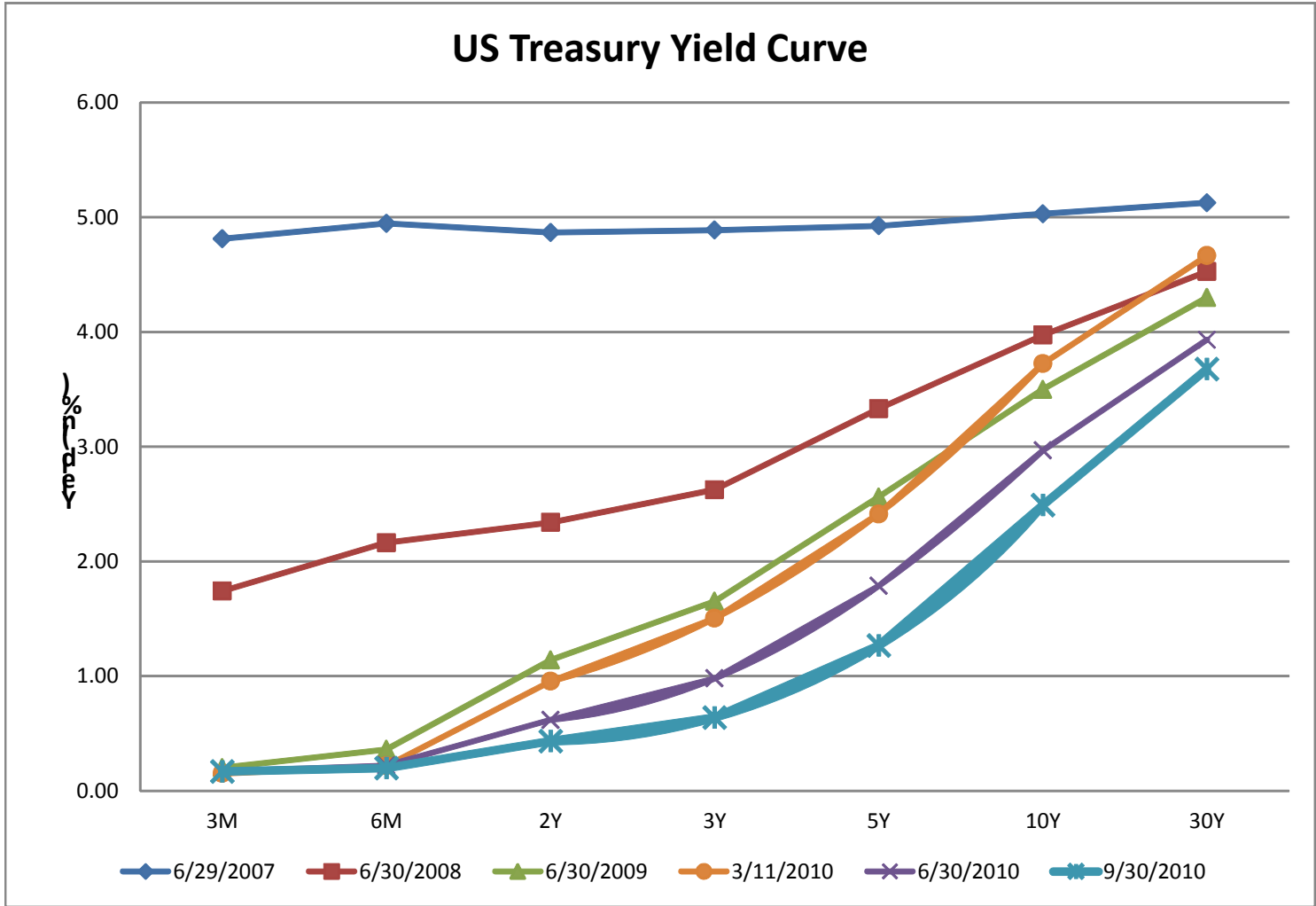
Interest Rates – Quick Look Back



Interest Rates – Quick Look Back



Interest Rates – Quick Look Back



**So, the history is interesting, but
what next? Where from here?**



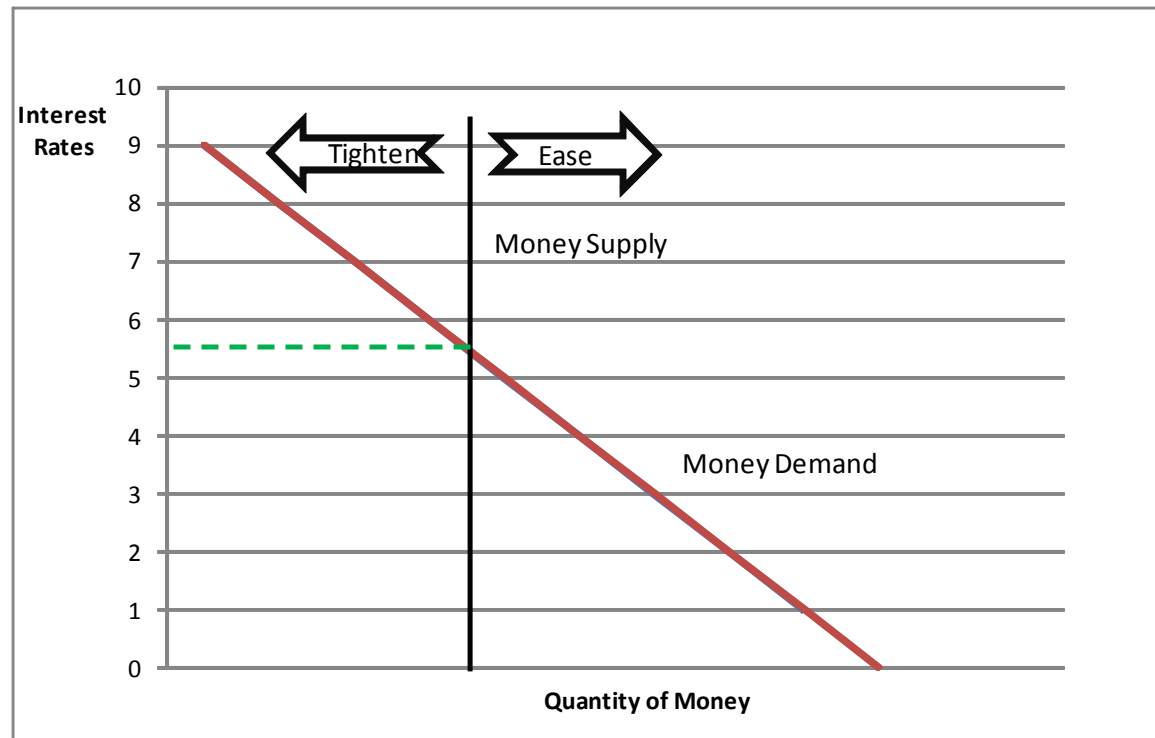
**So, the history is interesting, but
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Rates have to go up, don't they?

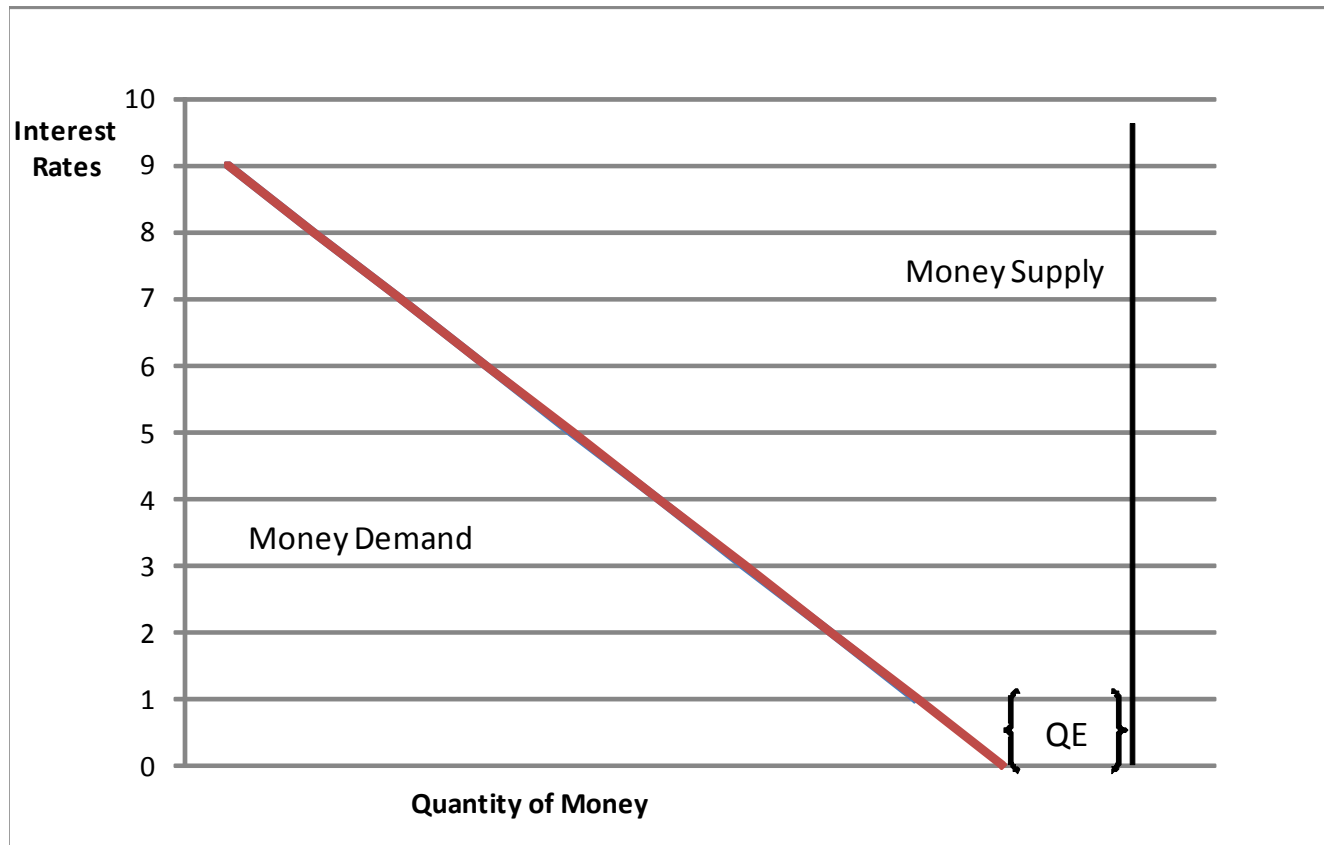


Monetary Policy

- Monetary policy is the manipulation of the money supply to affect the macro economy
- By increasing or decreasing reserves the Fed can shift the market clearing rate for reserves, the Fed funds rate.



Monetary Policy & 2008 Crisis



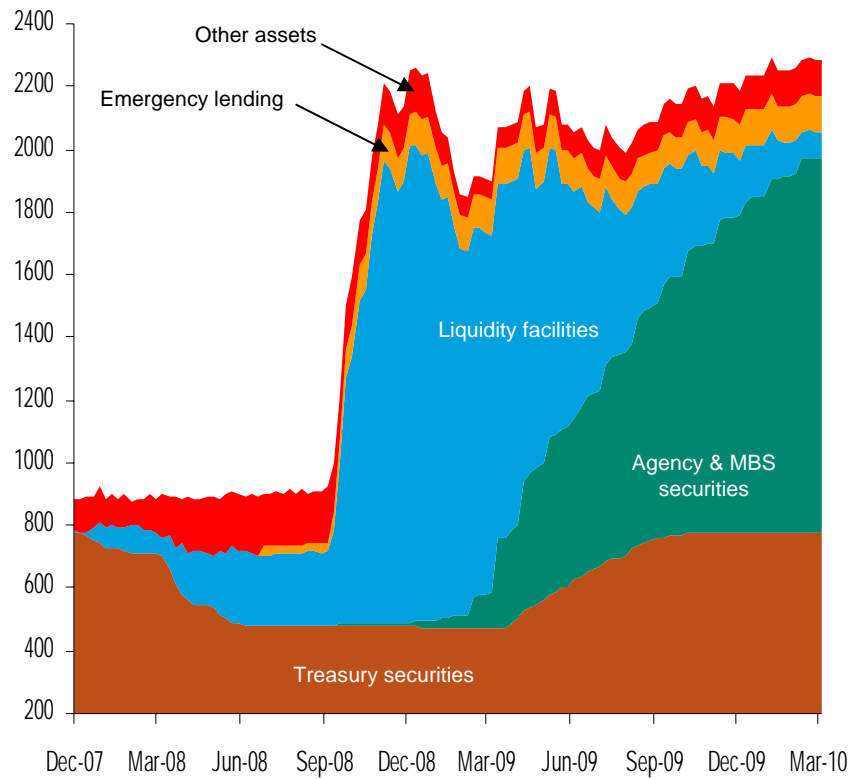
QE – Quantitative Easing

Fed: Lots of fluids

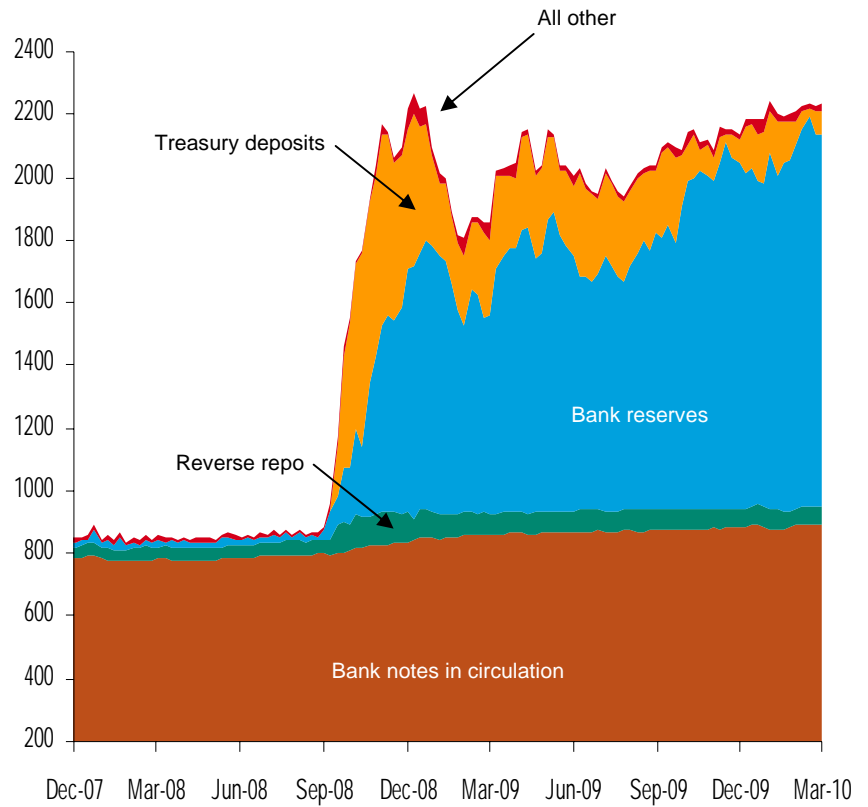
Source: Federal Reserve, BofA Merrill Lynch Global Research

(billions \$)

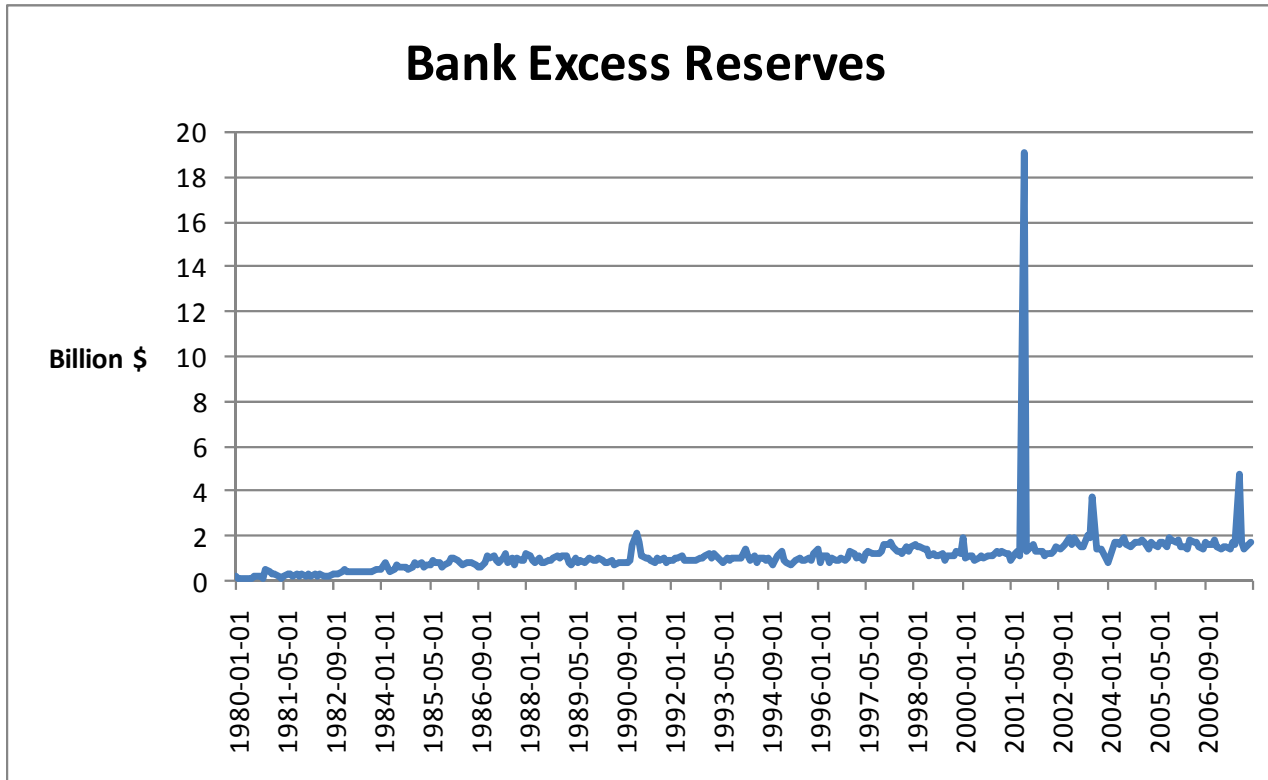
Federal Reserve Assets



Federal Reserve Liabilities



Bank Excess Reserves 1980 - 2007



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Corporate Activity

- Corporations are sitting on high levels of excess cash, increasing demand for liquid investments and reducing the cost (interest rate).
- Non-financial companies in the S&P 500 index reported \$837 billion in cash at end of March, a hefty 26% increase over the previous year's \$665 billion, according to S&P.
- These are unusually high levels -- companies are holding cash reflecting 10% of their value today.
- Since 1999, companies on average held cash equal to 6.6% of their value.
- Fortune, August 2, 2010



So if we have excess supply of money that is not going away, would rates increase if we increased demand?

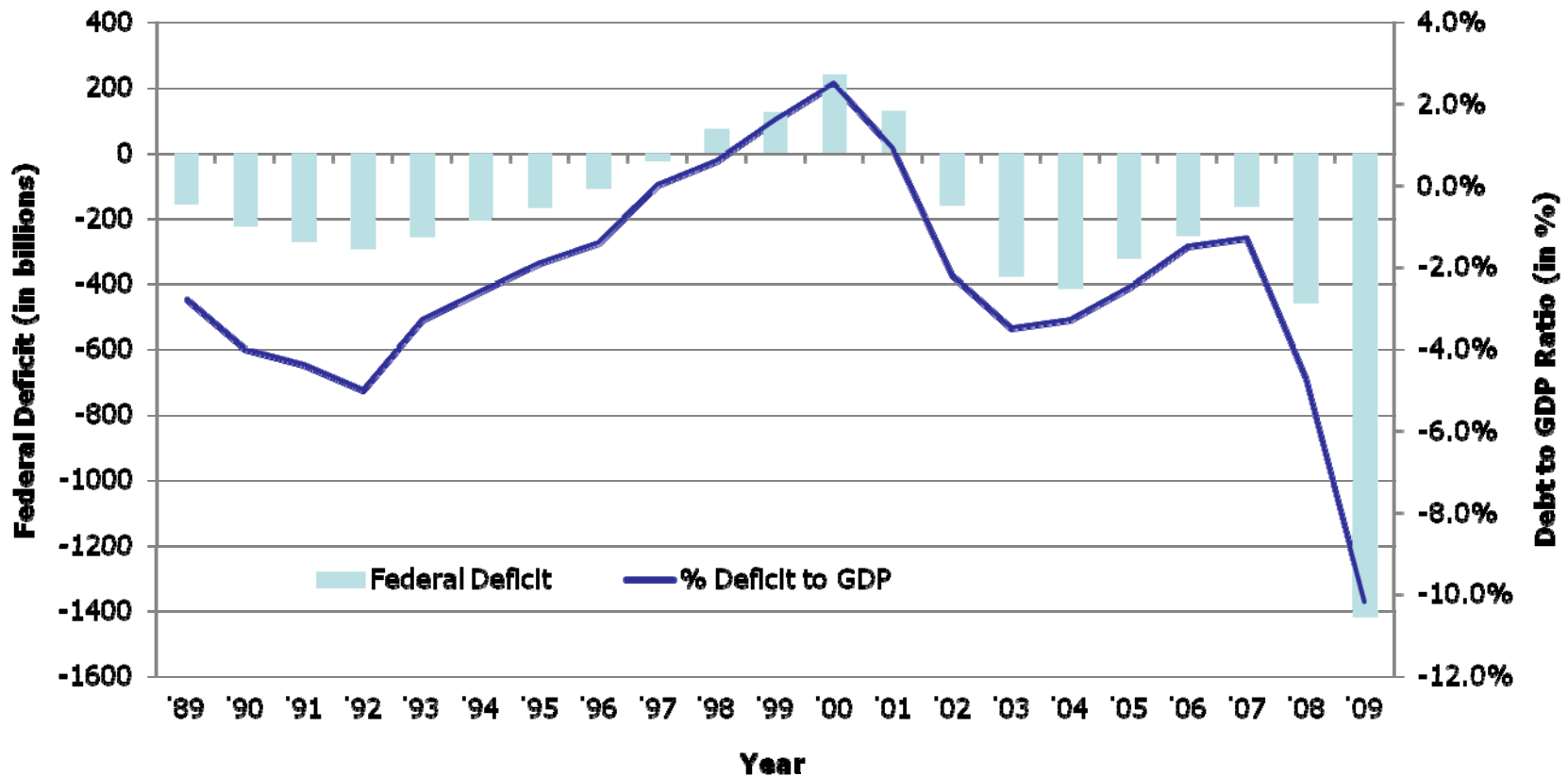


So if we have excess supply of money that is not going away, would rates increase if we increased demand?

Yes – but increased demand means a faster economic recovery.

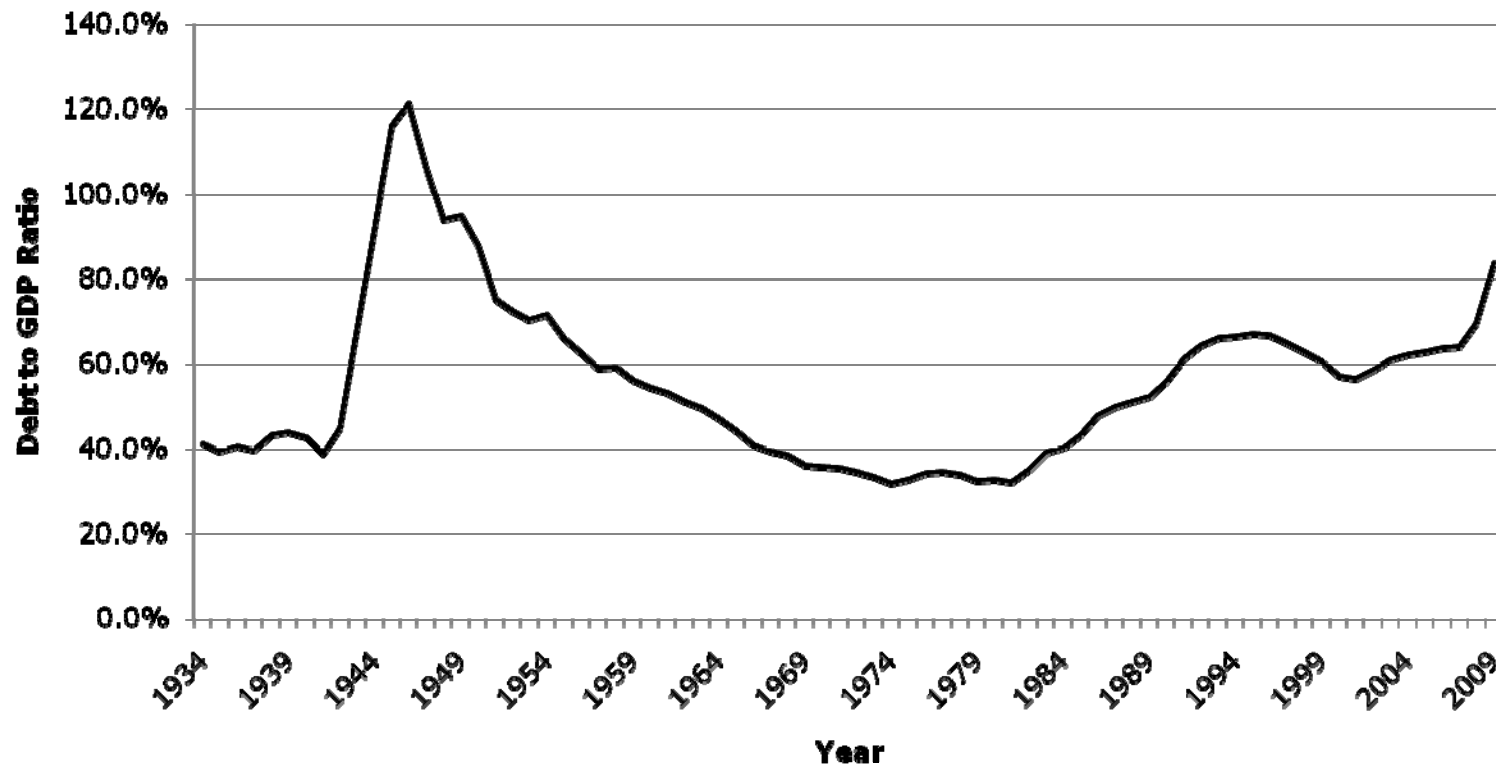
Federal Deficit Exceeds \$1.4 Trillion 10% of GDP

Federal Deficit



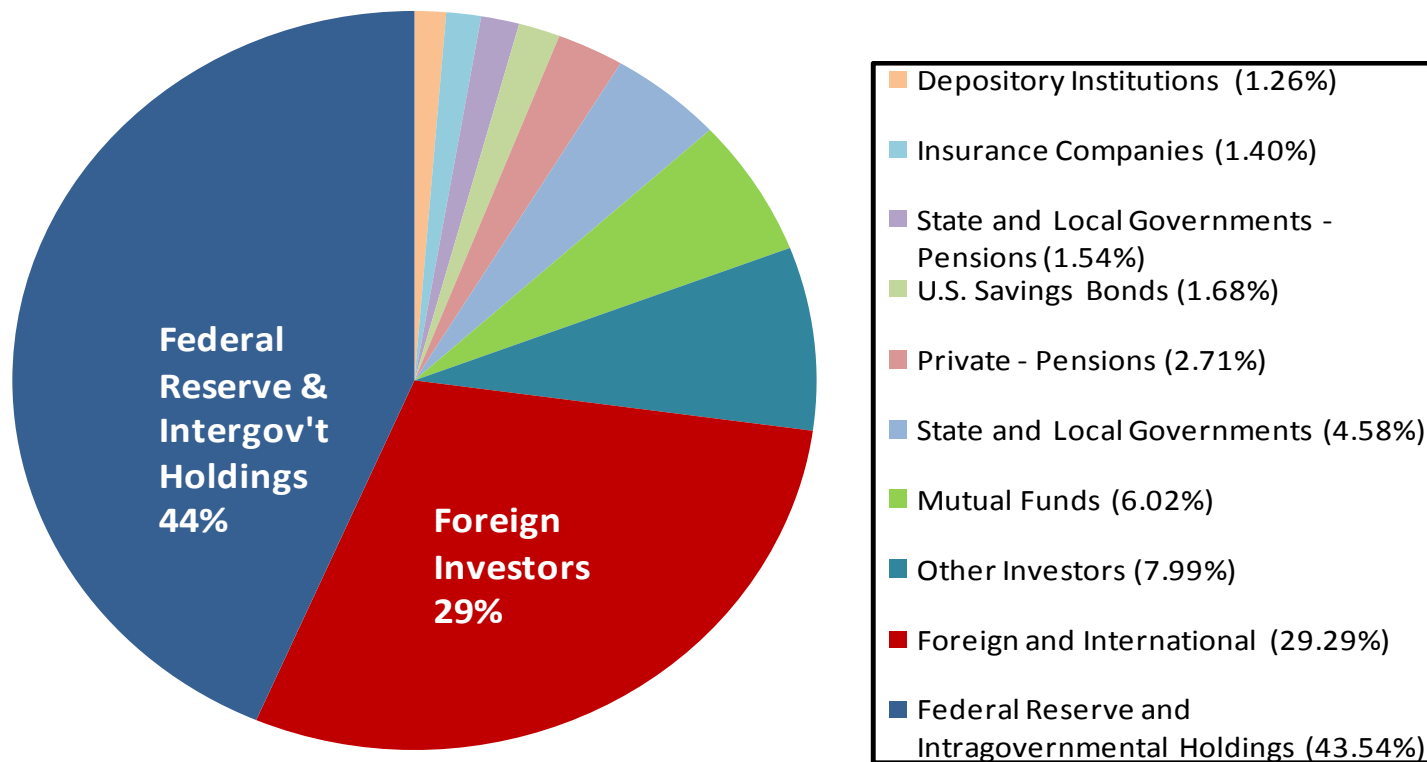
US Debt at 80% of GDP (\$12 trillion) Growing Rapidly

U.S. Federal Debt to GDP



Foreign Investors hold \$3.4 Trillion of U.S. Debt

Estimated Ownership of U.S. Treasury Securities



Fiscal policy doesn't seem so good how about monetary policy?



Fiscal policy doesn't seem so good how about monetary policy?

The Fed seems poised to try the monetary policy route again with another round of quantitative easing, QE2.

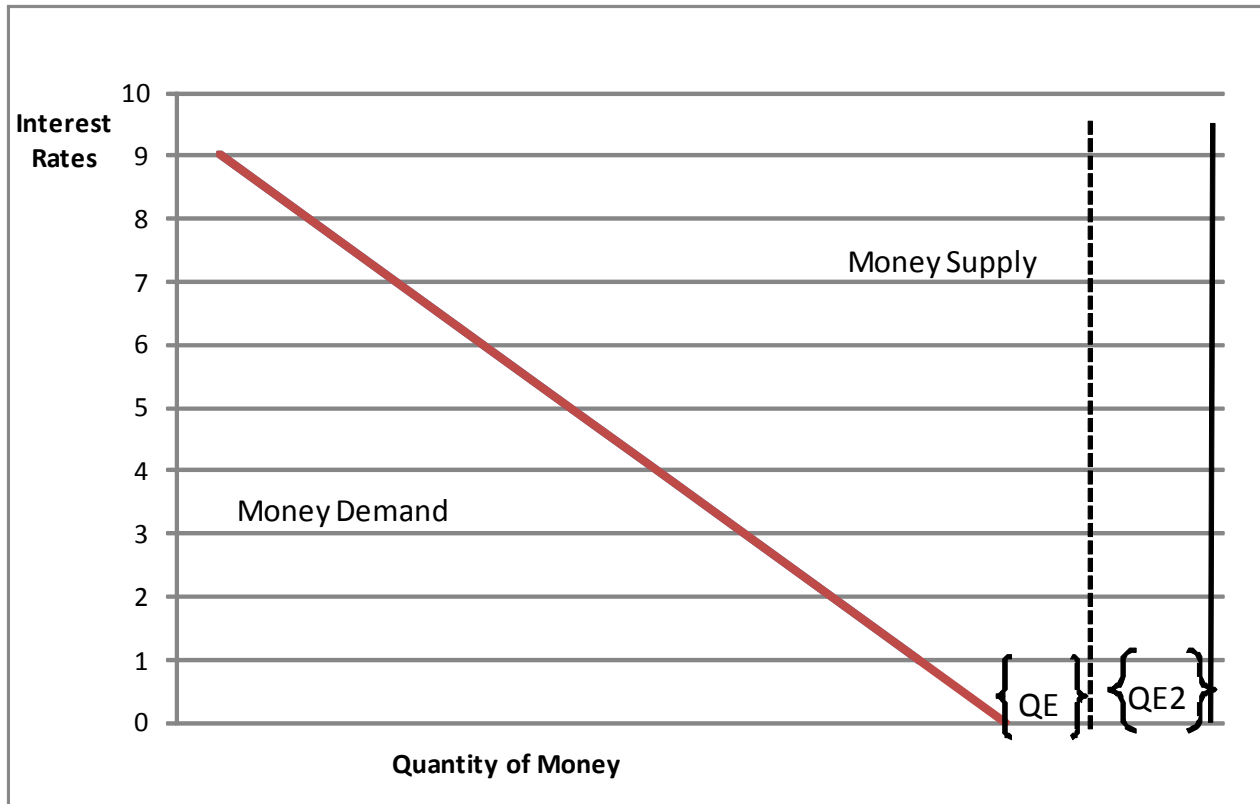
QE2 – The Sequel

We (Goldman Sachs) see <the> speech by William Dudley, president of the New York Federal Reserve Bank, as a strong signal that the FOMC is likely to announce another round of asset purchases at the November 2-3 meeting.

Although the initial amount is apt to be \$500 billion (bn), most likely in longer-term Treasury securities, we (GS) continue to think that the program will cumulate to more at least \$1 trillion (trn), possibly much more.



Monetary Policy



QE – Quantitative Easing



So When Do We Come Out of It?

Brian Sack, Manager of the Fed's System Open Market Account

“According to their most recently published forecasts, most FOMC members expect:

- the unemployment rate to remain above 8.25 percent through 2011
- the inflation rate to remain below its mandate-consistent level through 2012.
- the economy remains vulnerable to downside surprises that could take both output and inflation further away from the FOMC's objectives.”



So When Do We Come Out of It?

Reaction of from Goldman Sachs to Mr. Sacks comments:

“...he does make a valid point about the likely behavior of inflation over the next two to three years. If the committee already sees inflation as too low through 2011 at a minimum, and unemployment at a level that is clearly too high, then why won't that extended period extend well into 2012, if not beyond?”



Risks of Rate Increases

Expecting low rates to continue but guarding against higher rates.

- QE2 is already being built into the yield curve
- If Fed doesn't get the exit right when draining excess liquidity inflation could rise rapidly, as would interest rates
- Uncontrolled deficit spending, at some point, will impact the attractiveness of US investments to both international and domestic investors



Risks of Rate Increases

Shoeless Joe Jackson: The first two were high and tight, so where do you think the next one's gonna be?

Archie Graham: Well, either low and away, or in my ear.

Shoeless Joe Jackson: He's not gonna wanna load the bases, so look low and away.

Archie Graham: Right.

Shoeless Joe Jackson: But watch out for in your ear.



Uncharted Territory

1 yr and 10 yr Treasury Yields

