

VANTAGE RM

What Could Possibly Go Wrong...NOW!!!

Dennis DeLaughter
Market Analyst
June 5th, 2024

A Little About Me

- MBA from Texas A&M
 - Undergrad Degree in Ag Economics
- Licensed CBOT Floor Trader - 1987-2012
- Private Instrument Rated Pilot
- Division 1 - H.S. Football Official (Ref)
- Serves on US Sec. of Ag ATAC for Feed Grains
- Market Analyst

MY View of Trading

- *Risk Adverse (Risk Analyst)*
- *Hedger not a Speculator*
- *Technicals then Fundamentals*
- *Develop a Long-Term Outlook (Backdrop)*
- *Market Psychology –*
 - *(Fear – Greed – **Purpose**)*
- *Floor Trader Approach*

Floor Traders Approach in Nut-Shell

- ***Is not where the market is that matters it's:***
 - ***How did it get there***
 - ***Who put it there***
 - ***What is the current trading action***

Knowing these factors helps determine what the price direction might be...

Three Market Drivers

- **Fundamentals**
- **Technicals**
- **Headlines -**
 - The Market is Guessing at What Fundamentals & Technicals Will Be**

Three Truths about Markets

Remember the three enduring truths -

1. In the long term – It is all about the Fundamentals

The known and expected changes in Supply – Demand

Three Truths about Markets

Remember the three enduring truths -

2. In the short run – It is about the Technical Action

Market action based on Historical Market Data

Three Truths about Markets

Remember the three enduring truths -

3. Headline Driven – It is all about the Market Guessing

What both the Fundamentals and Technicals Will Be

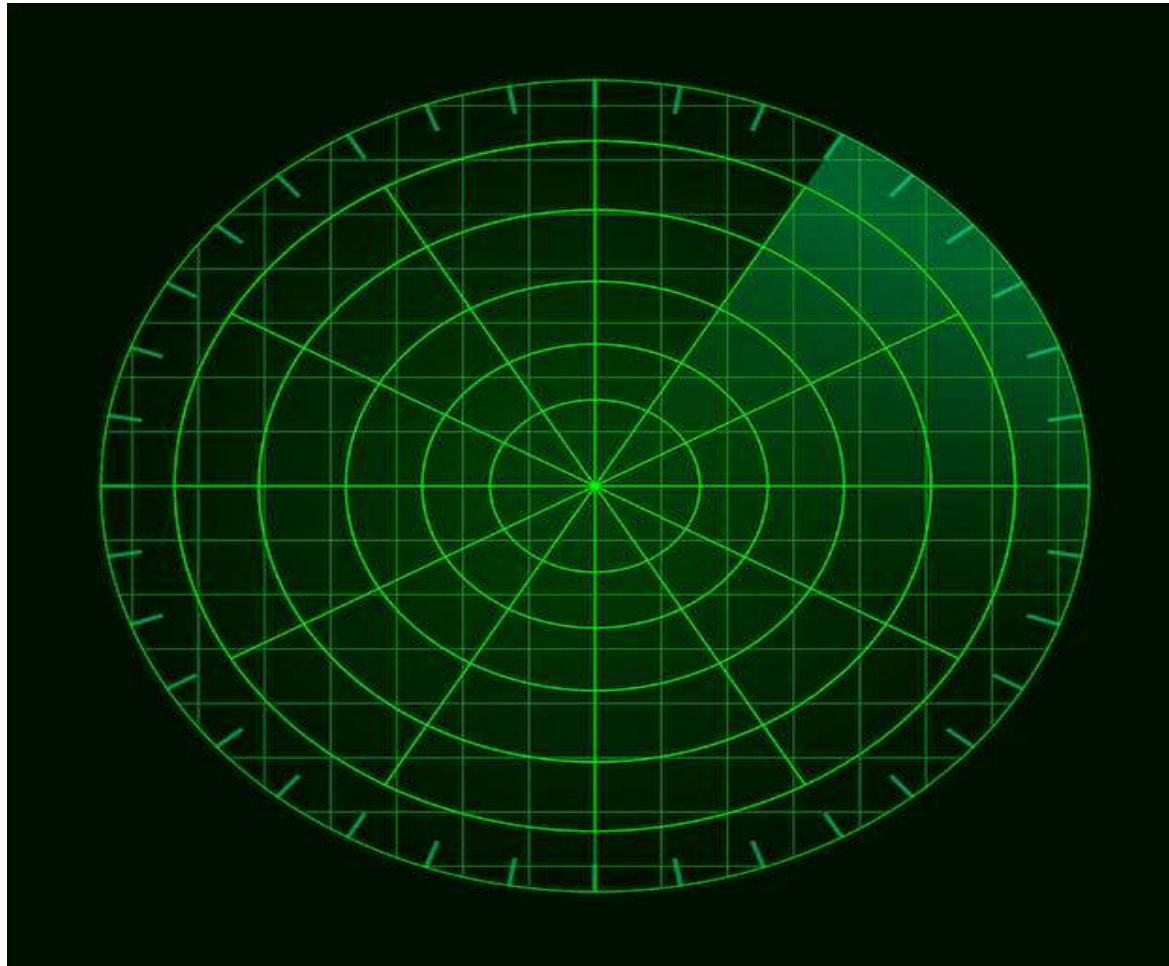
Three Truths about Markets

In a nutshell -

1. In the long run – the Fundamentals win
2. In the short run – the Technicals win
3. **Headline Driven – Neither win – Casino Action**

What is the Next Unknown Headline???

What's ***Missing*** on our Radar in 2024?



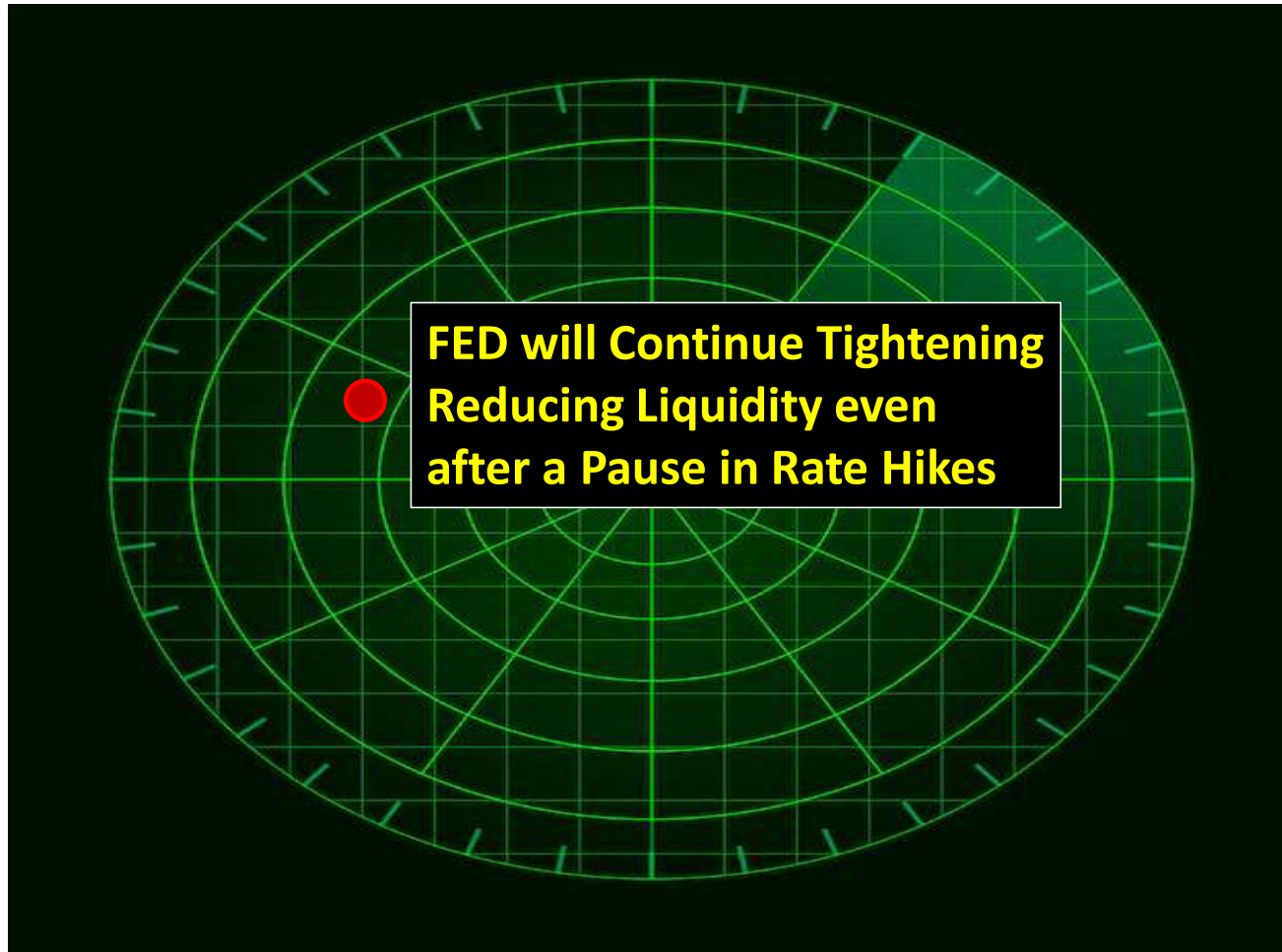
Some Unknown Headlines this time Last Year

1. India Bans the Exportation of White Rice
2. The average milling grade for US rice low (51/68)
3. Flooding in Southern Brazil trims Production
4. US Inflation Remains Elevated as does the FED Rate

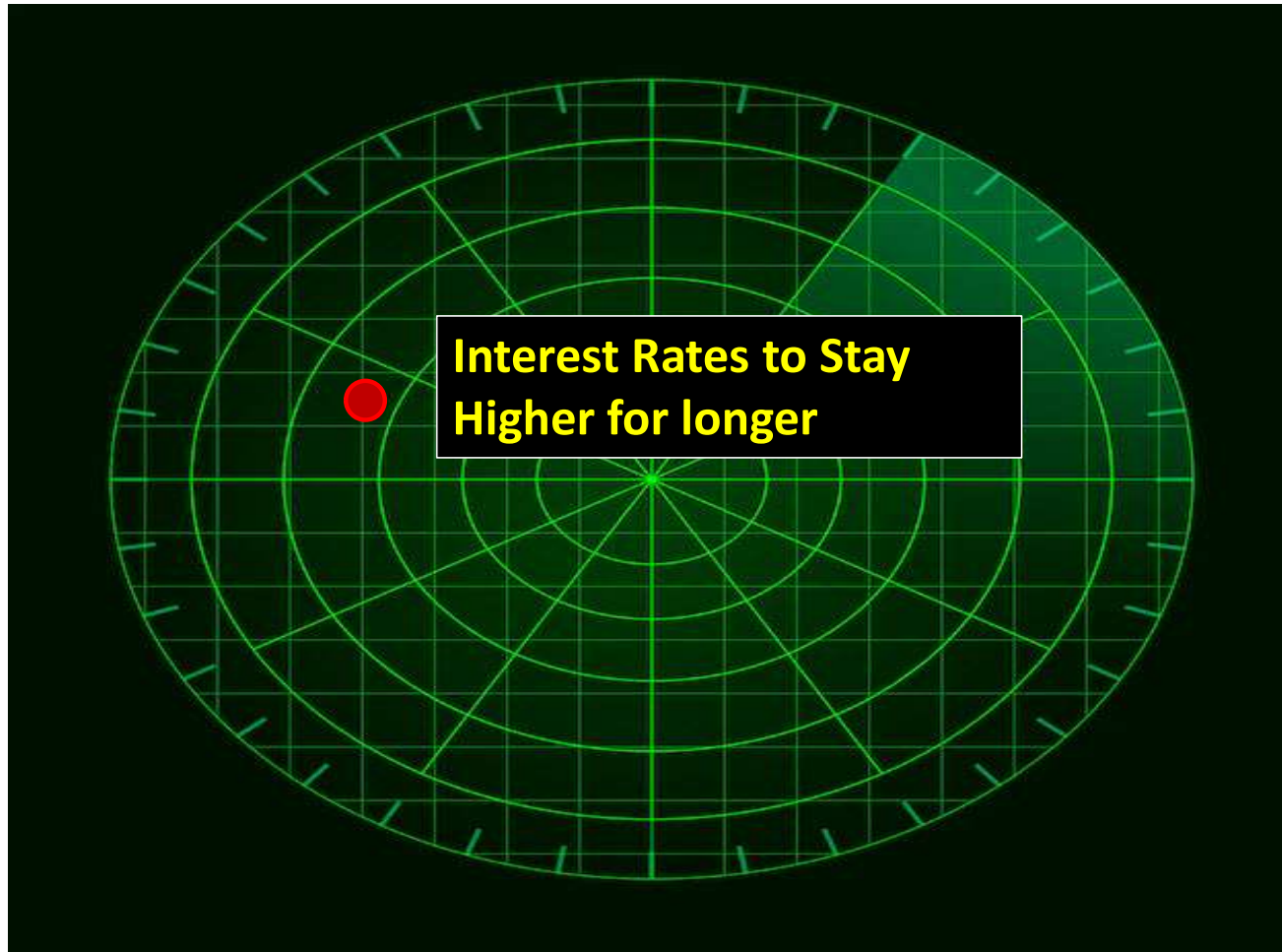
What Could Possibly Go Wrong???

***Here are some of the things
we mentioned last year
we could be missing in 2023***

What's Missing on the Rice Industries Radar in 2023?



What's Missing on the Rice Industries Radar in 2023?



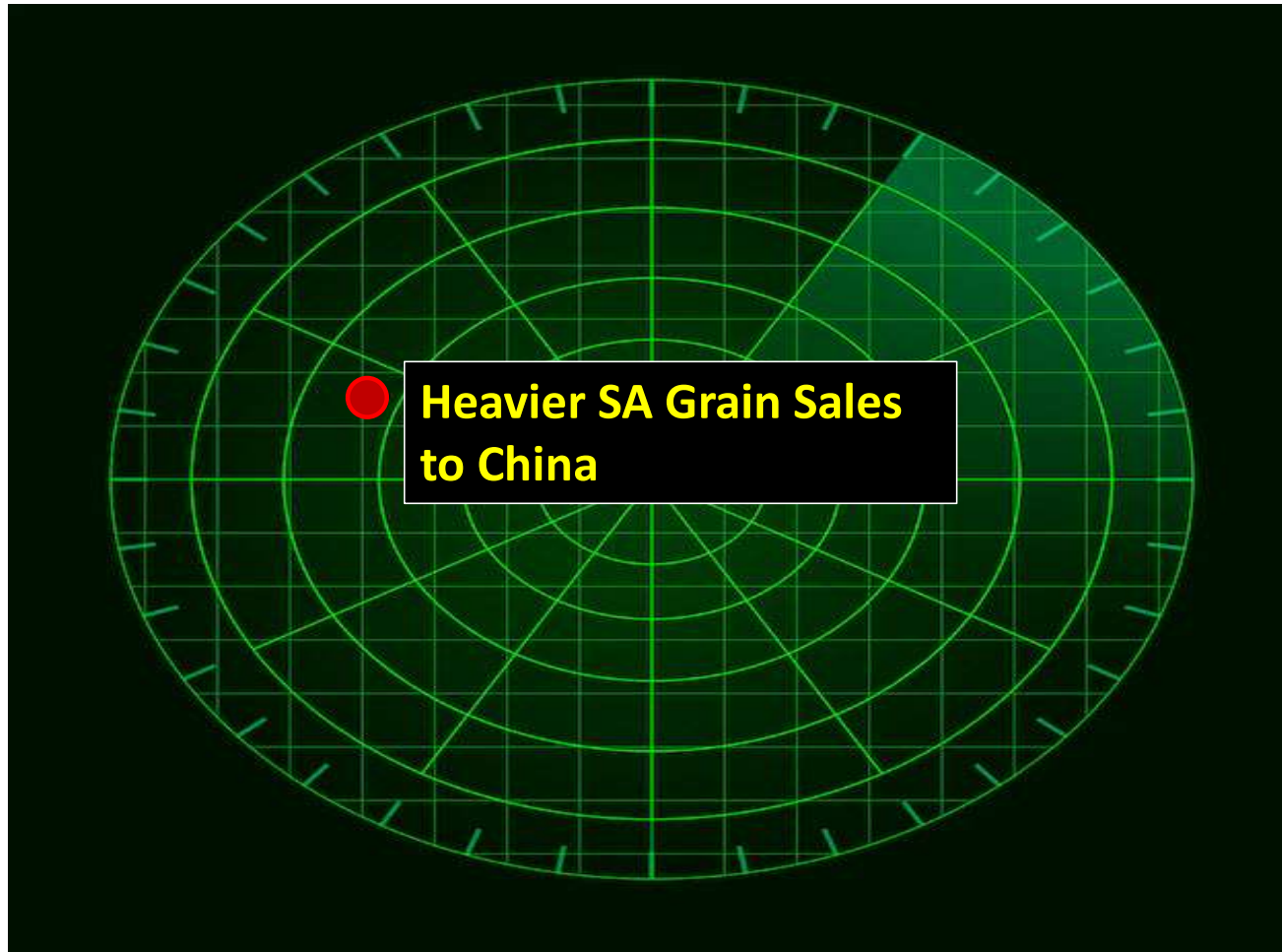
What's Missing on the Rice Industries Radar in 2023?



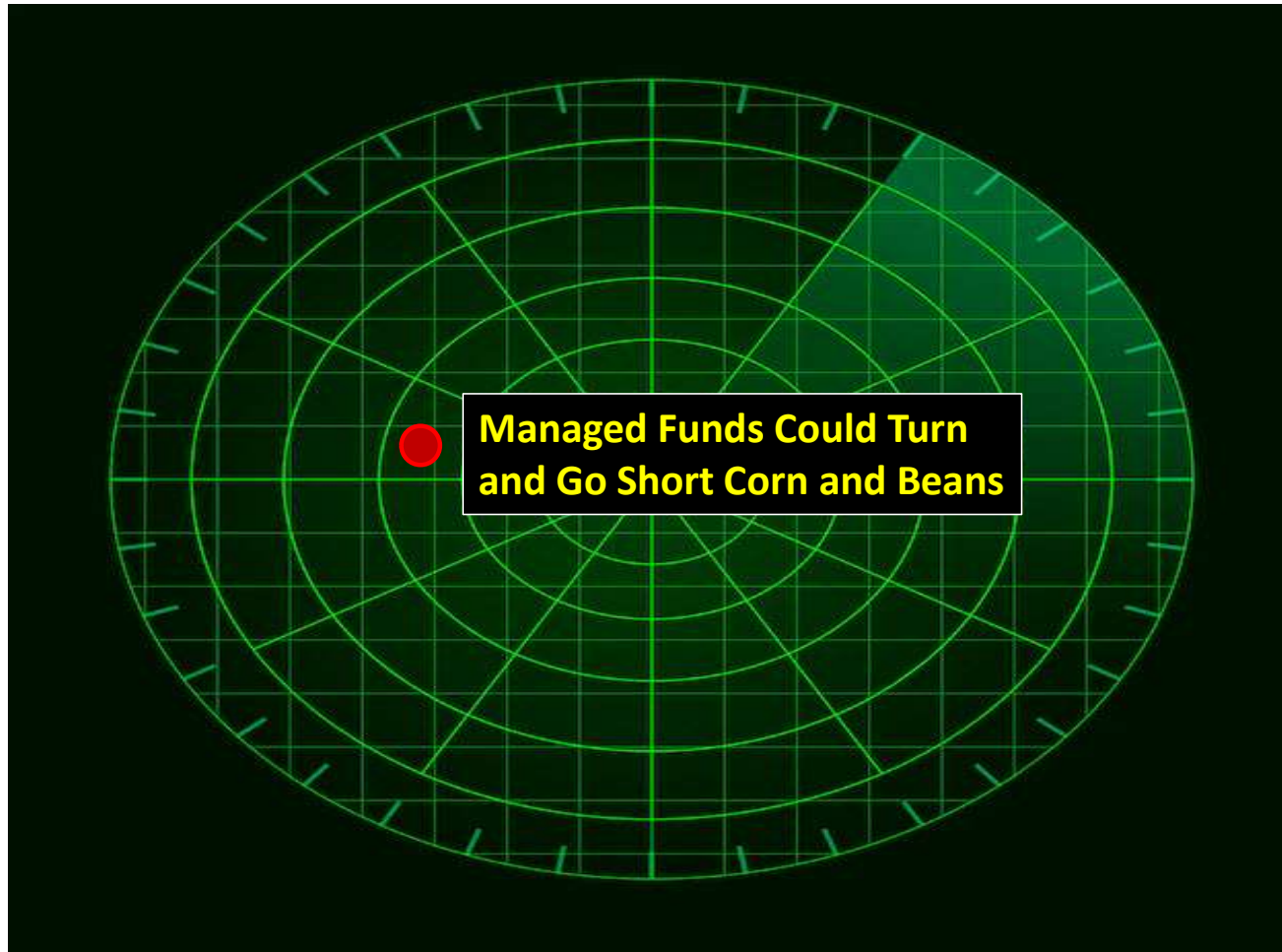
What's Missing on the Rice Industries Radar in 2023?



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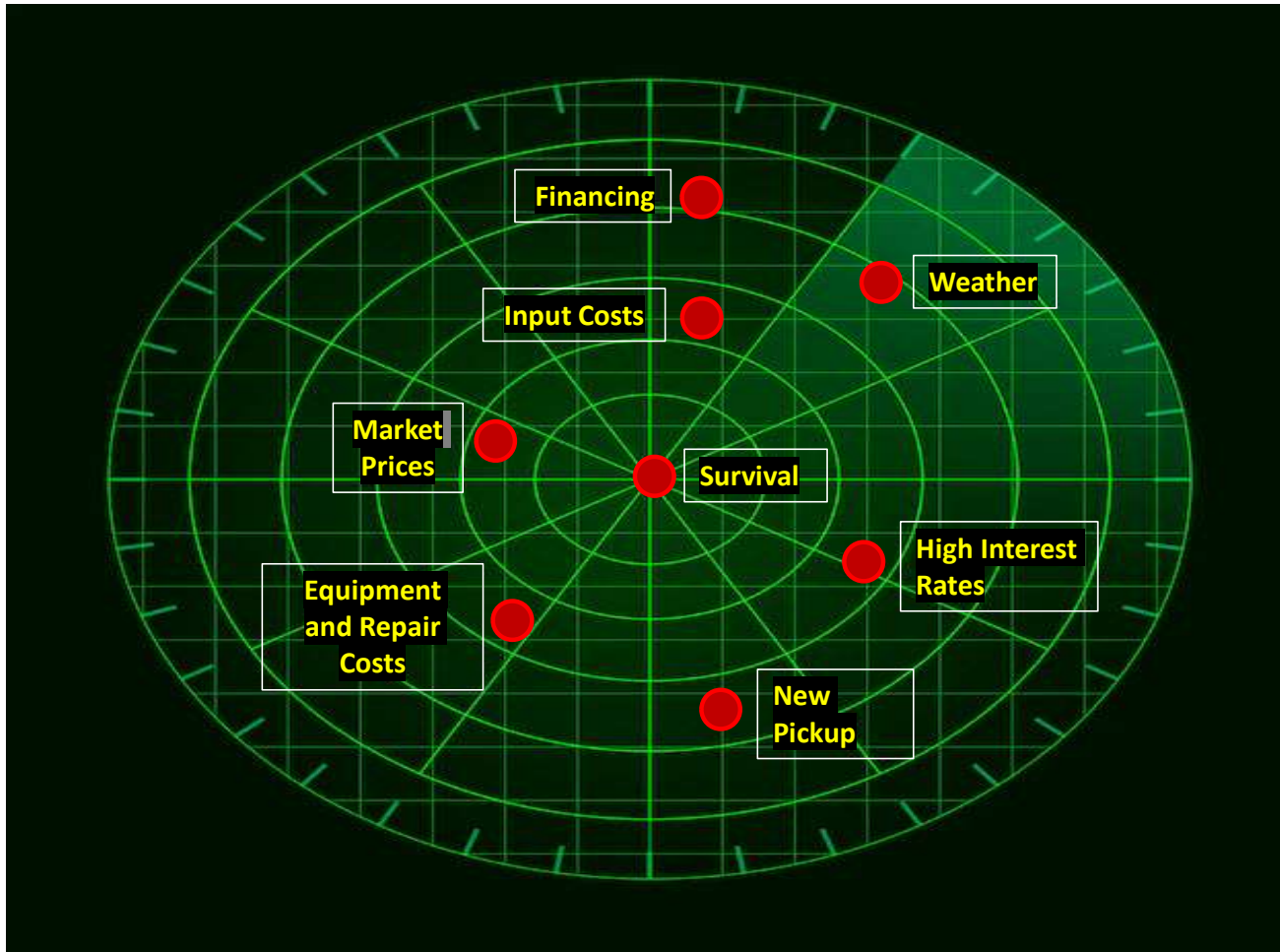
What's Missing on the Rice Industries Radar in 2023?



Lookout for *(Written in November of 2022)*

- ***Headline Risk -
Something is coming to change the narrative – Plan on it***
- ***Interest Rate Sensitive Producers - High Rates for Longer Period***
- ***Outside Markets May Not be Right on “soft landing”***
- ***China Demand Shifting even more to South America***
- ***Higher Supplies and Lower Demand very Possible***
- ***Funds Shifting to Short Positions - Major Impact***

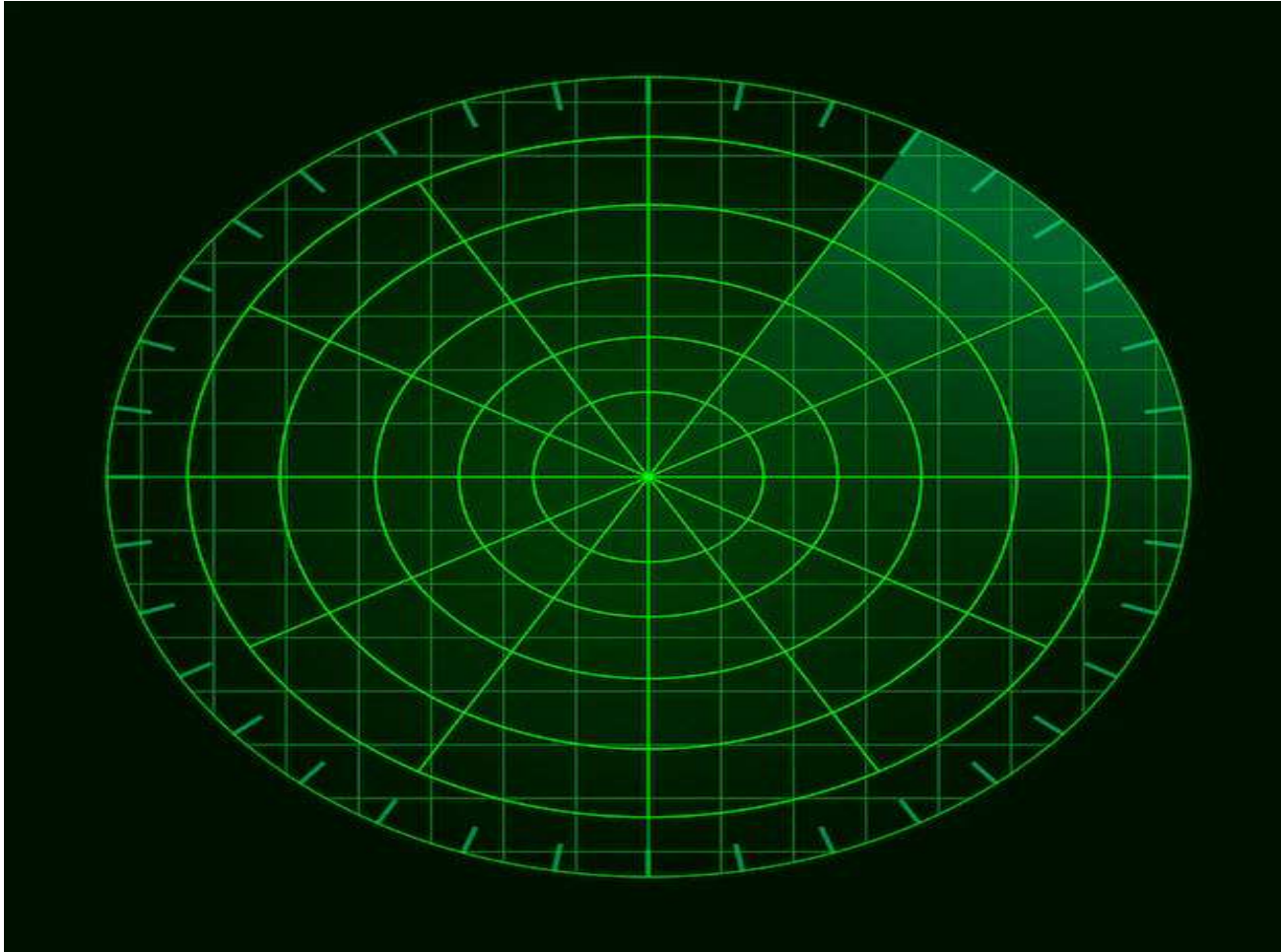
What's on the Producer's Radar in 2024?



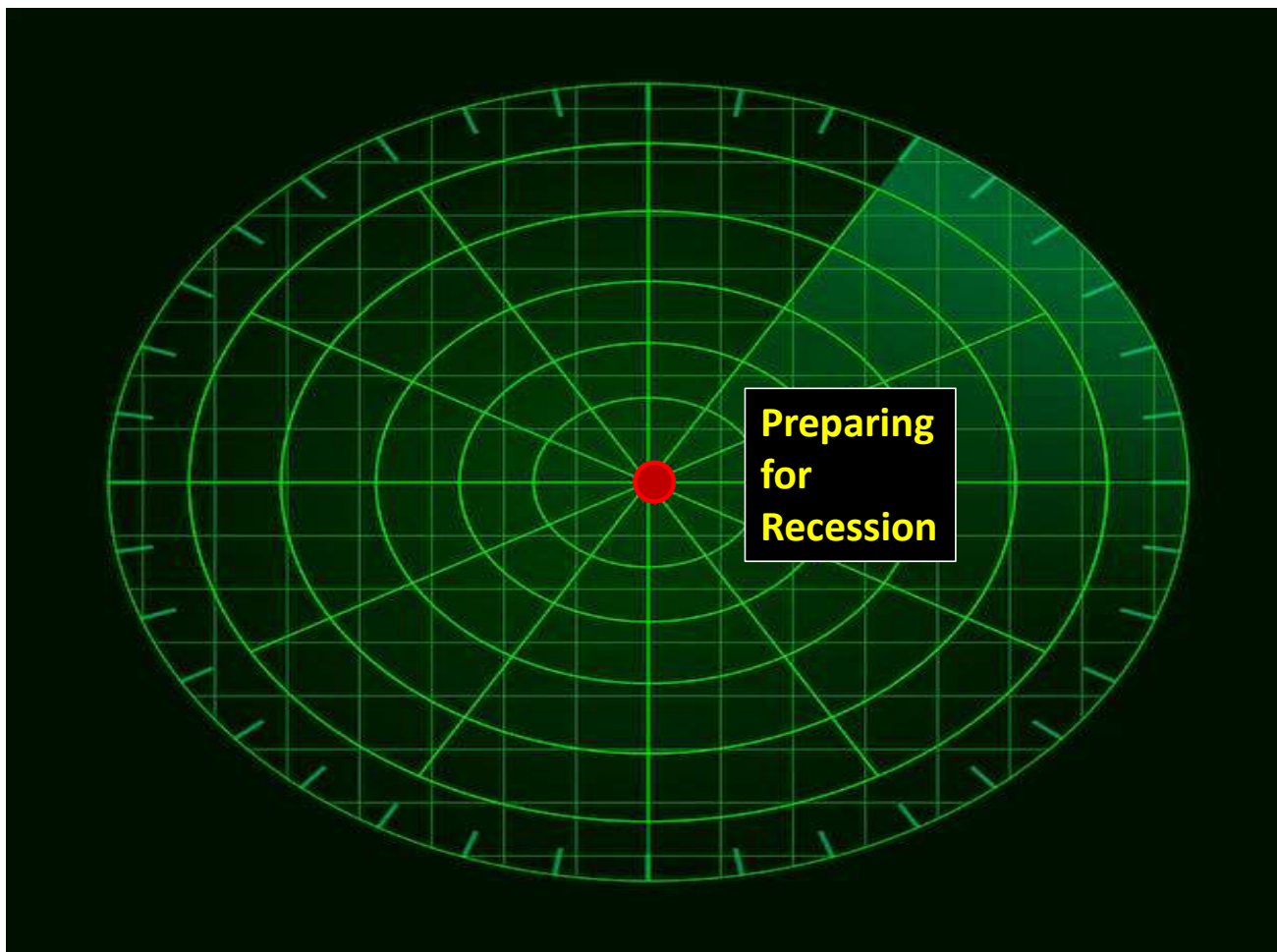


Nope!! Just going to clean this one up!!!

What's on My Radar Screen in 2024/2025?

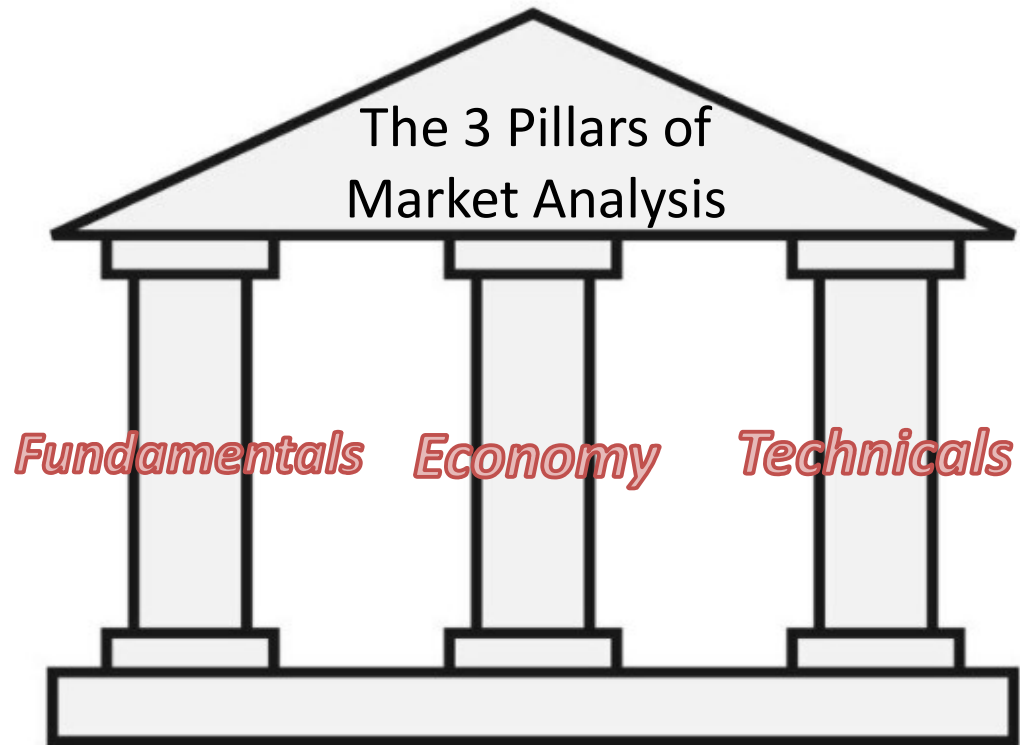


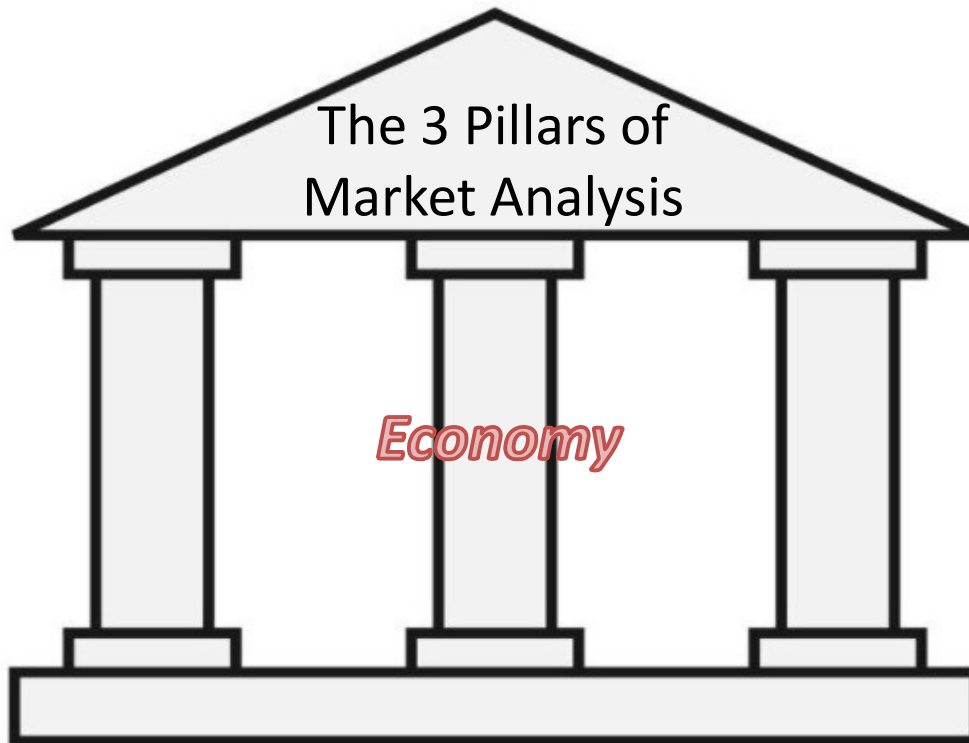
What's on My Radar Screen in 2024/2025?



What is the Historical Impact of Recessions on Agriculture?

- ***Lower Commodity Prices***
- ***Reduced Export Demand***
- ***Lower Net Farm Income (in every Recession but 1)***
- ***Tight Credit and Reduced Banking Loan Availability***





US Economic Environment

“Current Economic Conditions”

- *Outlook of “Soft” vs “Hard” vs “No” Landing*
- *US Employment Numbers –*
- *Industrial Production*
- *Inflation Indicators – How the FED is doing -*
- *The Washington DC Factor – President – House - Senate???*

Economic Cycle



Economic Cycle

- *Expansion – Growing GDP*
- ***Crisis - A Threat to GDP – Economy Slows Down***
- *Recession – Unemployment Spikes – Negative GDP Growth*
(Recessions are deflationary)
- *Government Response – FED becomes Accommodating*
- *Recovery – Growth Returns*

What is meant by “Landing”

*Bringing the economy back into balance
with a 2% Inflation Rate
and Maximum Employment –
Accomplished by*

Adjusting the Cost of Money to the Economy

What is meant by “Soft Landing”

*Bringing the economy back into balance with a
2% Inflation Rate and
Maximum Employment*

*Without causing
a Major Economic Contraction
(A Recession – Declining GDP)*

What is meant by “Hard Landing”

*Bring the economy back into
Balance with a 2% Inflation Rate and
Maximum Employment*

*Results in a Major Economic Contraction
- High Unemployment
- Deflation
(Deeper Recession – PCE Less than 1%)*

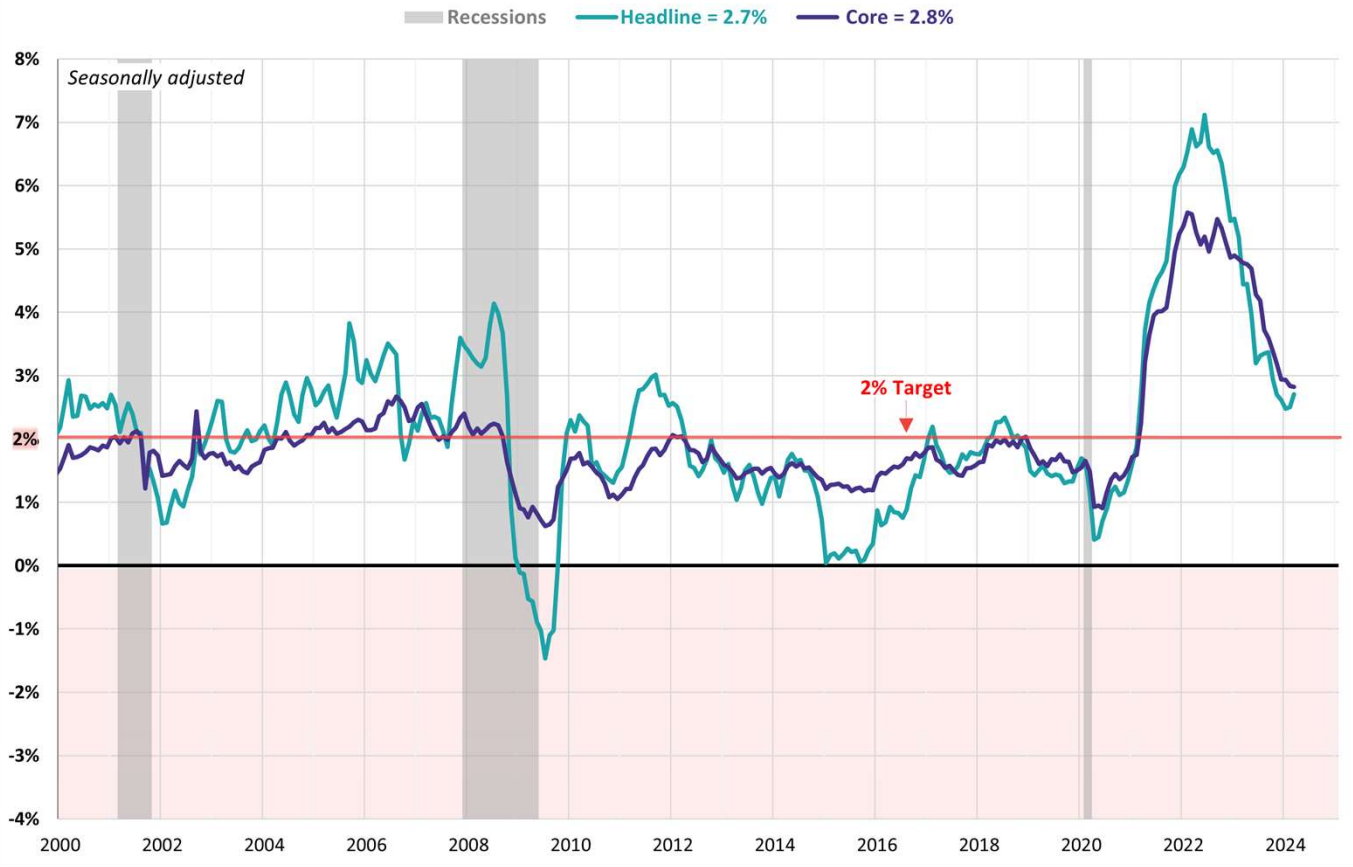
What is meant by “No Landing”

*Bringing the economy back into balance
with a 2% Inflation Rate and
Maximum Employment –*

*Inflation stays higher than 2% Objective
And Unemployment Rises (The Current Trend)*

Stagflation - High Unemployment with Inflation

Personal Consumption Expenditures (PCE) Price Index Year-Over-Year Since 2000



Question Remains:

Can the FED bring inflation under control without a recession?

In other words,

Will the Economy have a:

“Soft” , “Hard” or “No” Landing??”


Verdict remains out but...

FED will adjust the Cost of Money to the Economy based on

Economic Data and Financial Conditions

US Economic Environment

“Current Economic Conditions”

- ***Outlook of “Soft” vs “Hard” vs “No” Landing*** 
- ***US Employment Numbers –***
- ***Industrial Production***
- ***Inflation Indicators – How the FED is doing -***
- ***The Washington DC Factor – President – House - Senate???***

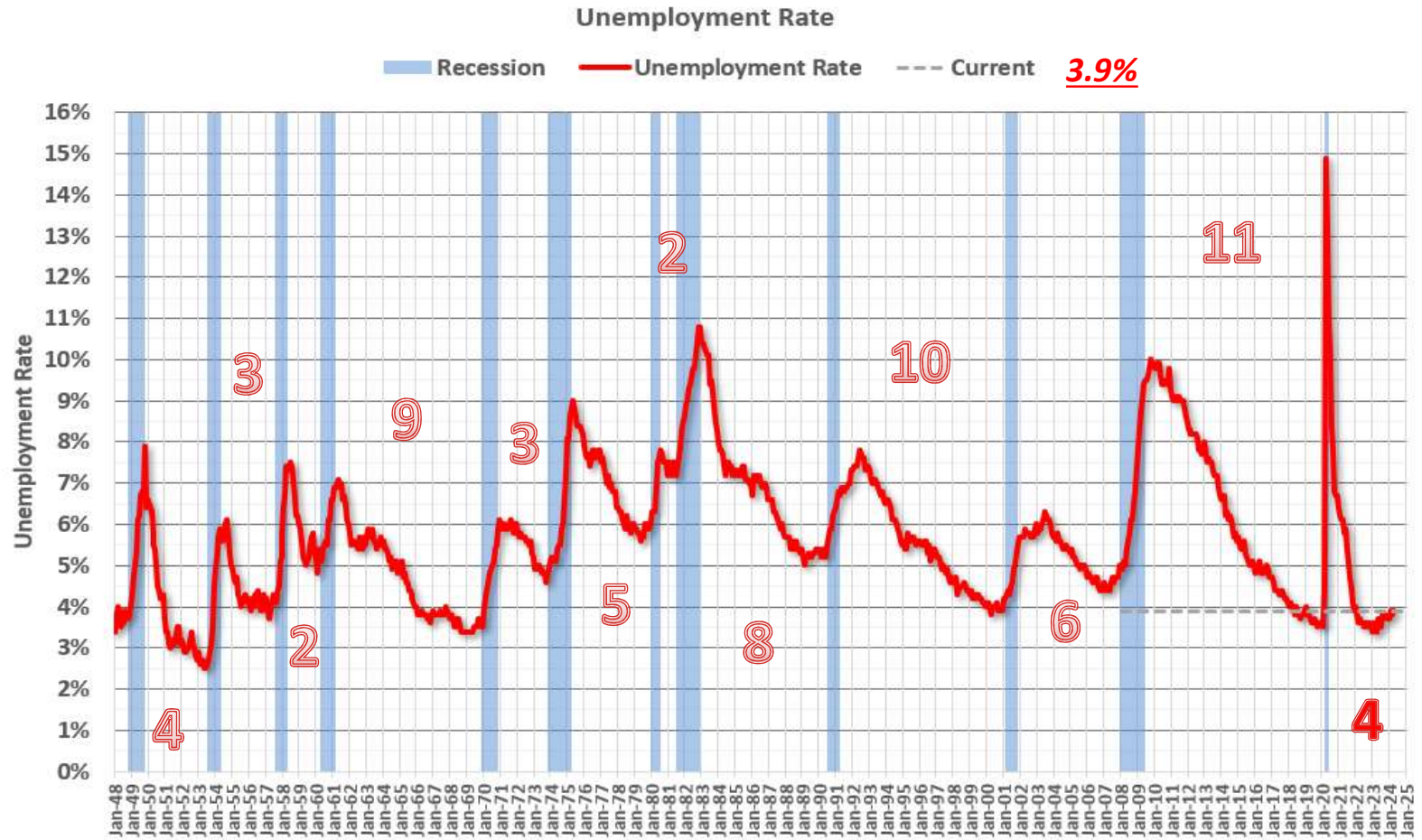
Employment Numbers

How they affect the FED's actions

- Work Force (Who is working)
- Wage Growth (How much are they paid)

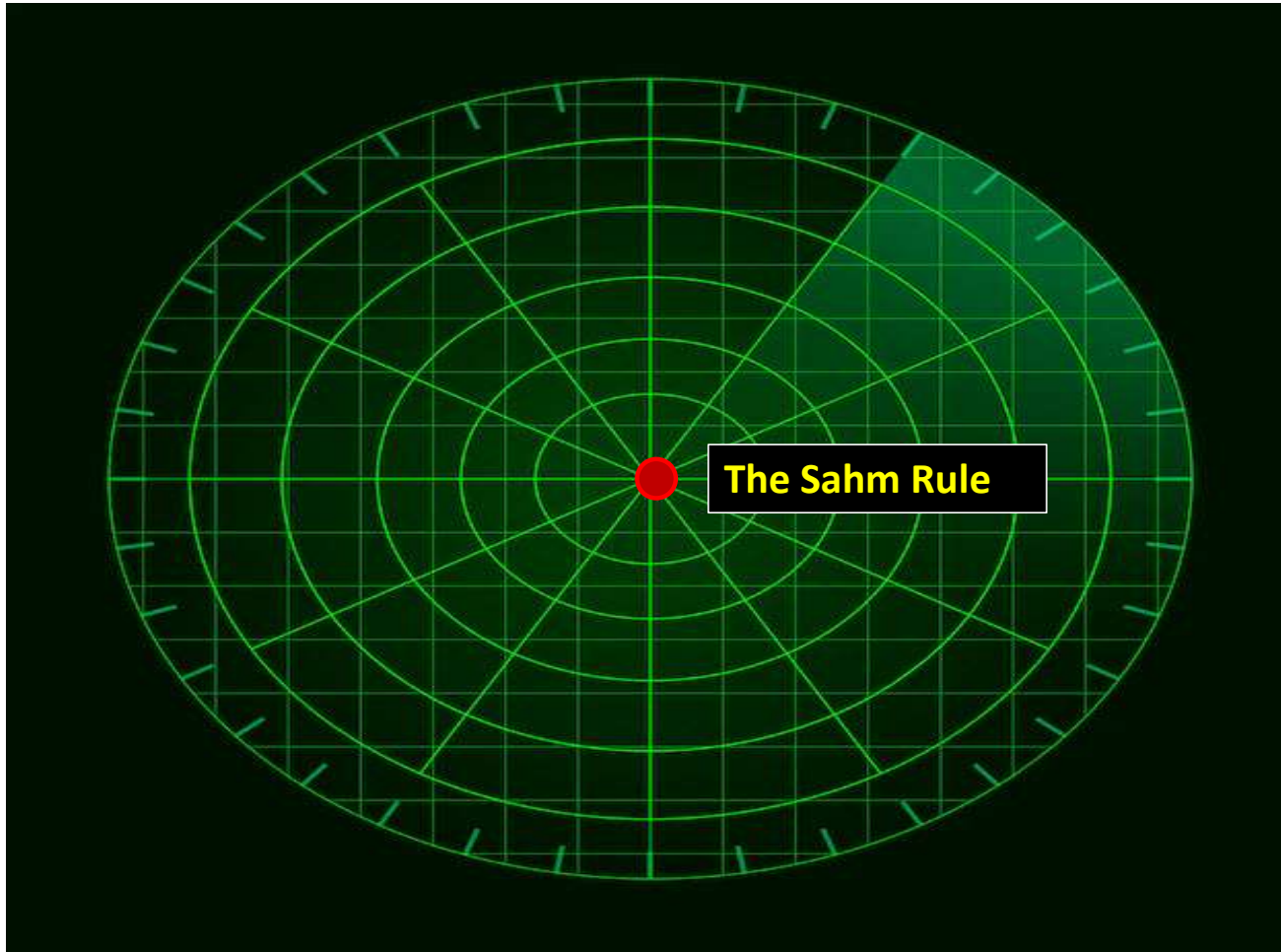
First Element of Employment
“The Work Force”

Unemployment Rate & The Economic Cycle (current data 5-2-24)



Can the Unemployment Rate Forecast a Recession?

What's on My Radar Screen in 2024?



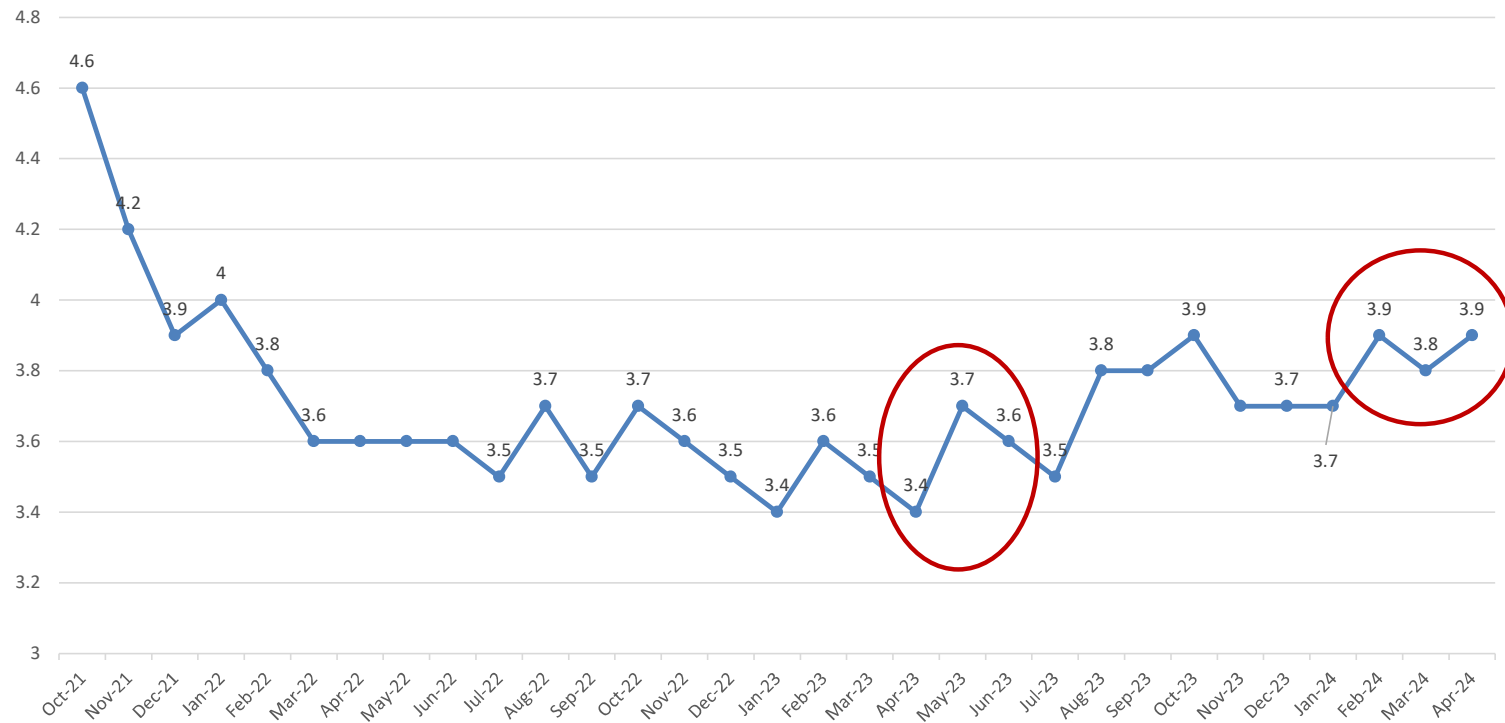
The Sahm Rule -

*When the Average Unemployment Rate
for the past 3 months
is .50 higher than
the lowest 3-month Average Rate
Over the last 12 months*

Has ALWAYS Signaled the start of a recession

The Sahm Rule - Current

Unemployment Rate



The Sahm Rule - Current

Avg Rate past 3 months - 3.86

Lowest Avg rate last 12 months – 3.56 (Apr.)

Current Sahm Index = + .30

The Sahm Rule – Looking Ahead

For Sahm Index to get .50

May's Unemployment Rate – 4.7

$3.7 + 3.9 + 4.7 = 4.1$ average

Lowest Avg rate last 12 months – 3.60 (May)

Sahm Index would be - .50

The Sahm Rule – Looking Ahead

*Lowest 3-Month Average = 3.83
(Aug, Sept, Oct)*

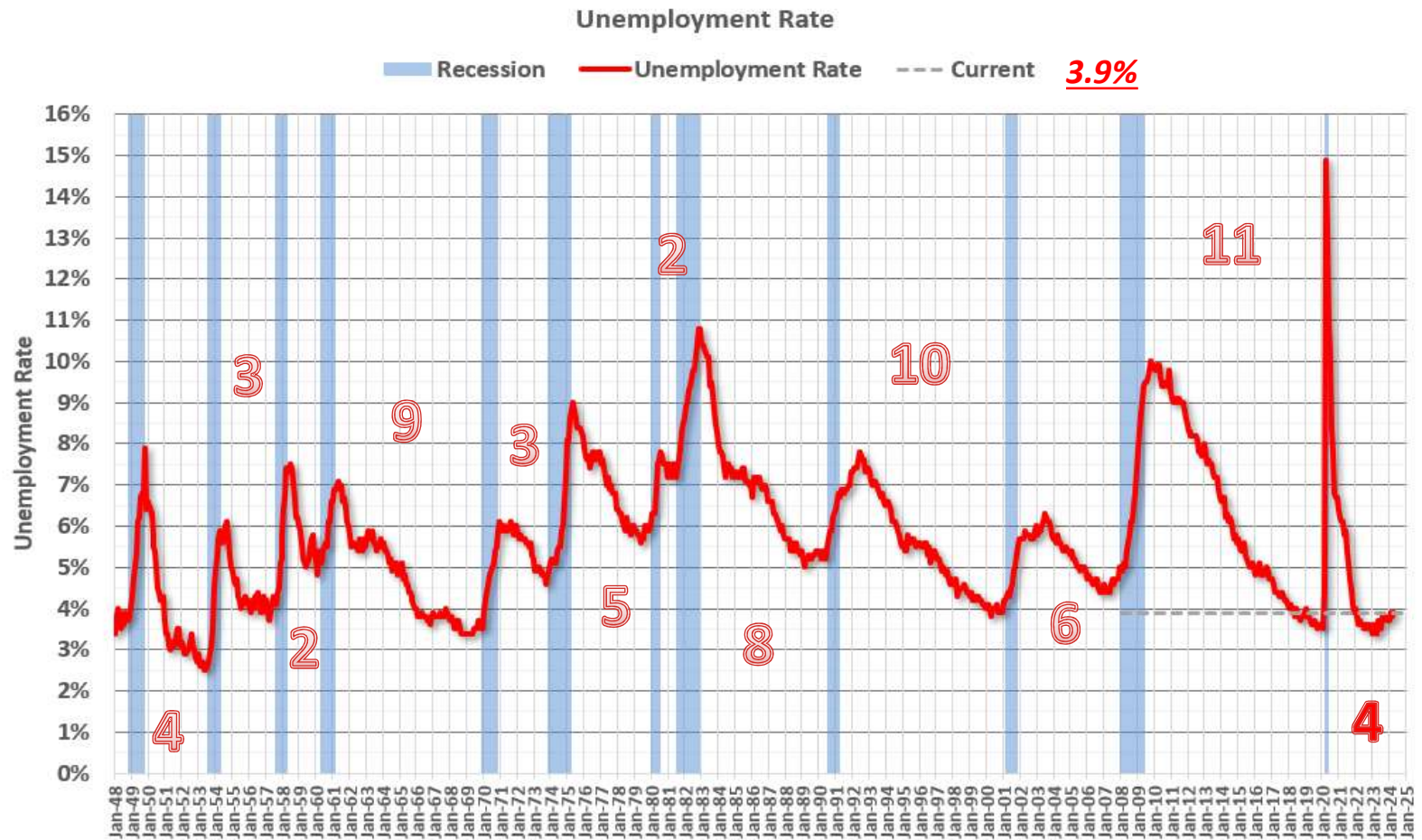
*Unemployment Rising to Average 4.40%
before February 2025 would Warn of a Recession*

Sahm Index will be at .50%

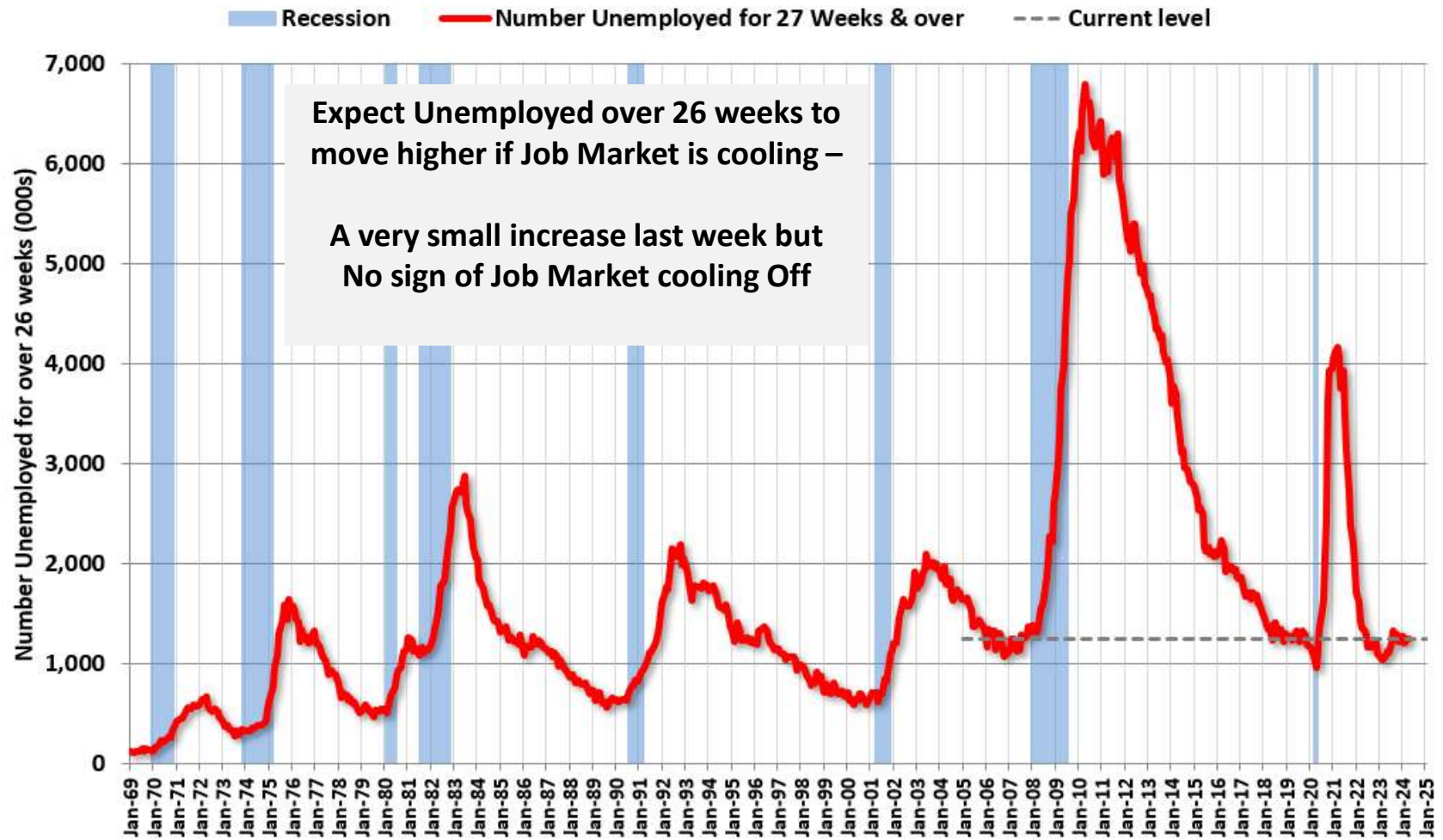
What's on My Radar Screen in 2024?



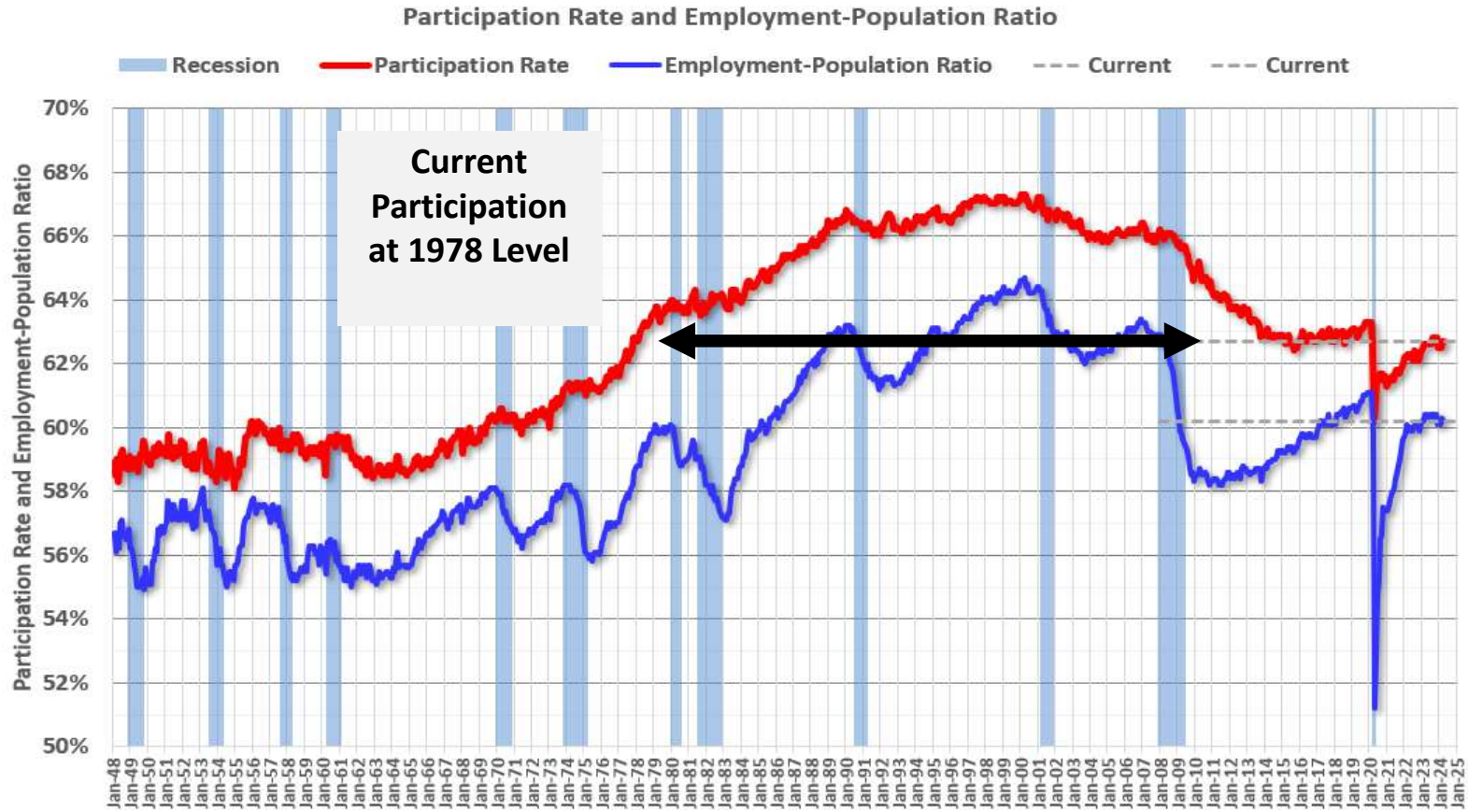
Unemployment Rate & The Economic Cycle (current data 5-2-24)



Unemployed for Over 26 Weeks



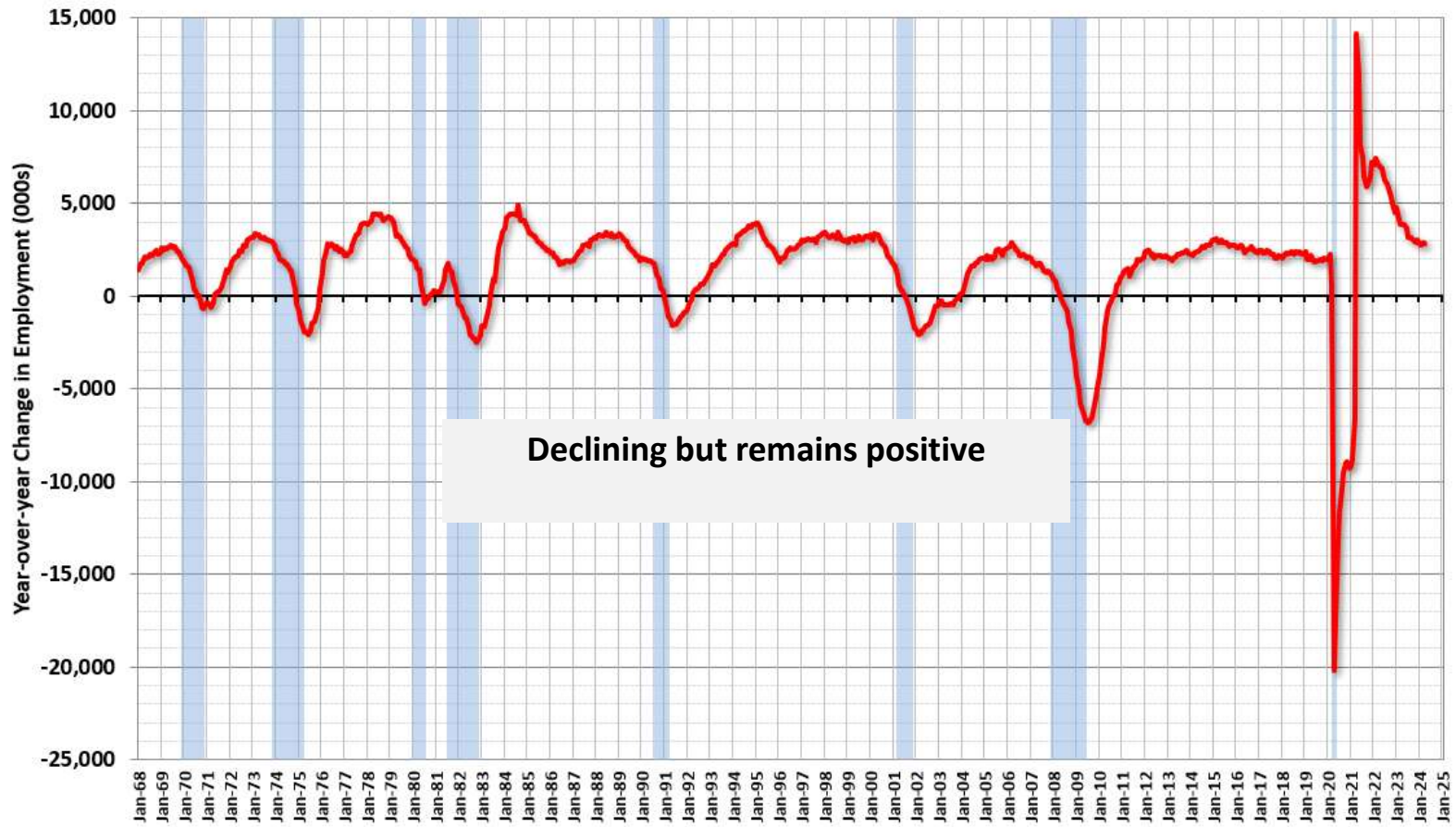
Employment Participation- As of May 3rd Report



This is the percentage of the working age population in the labor force.

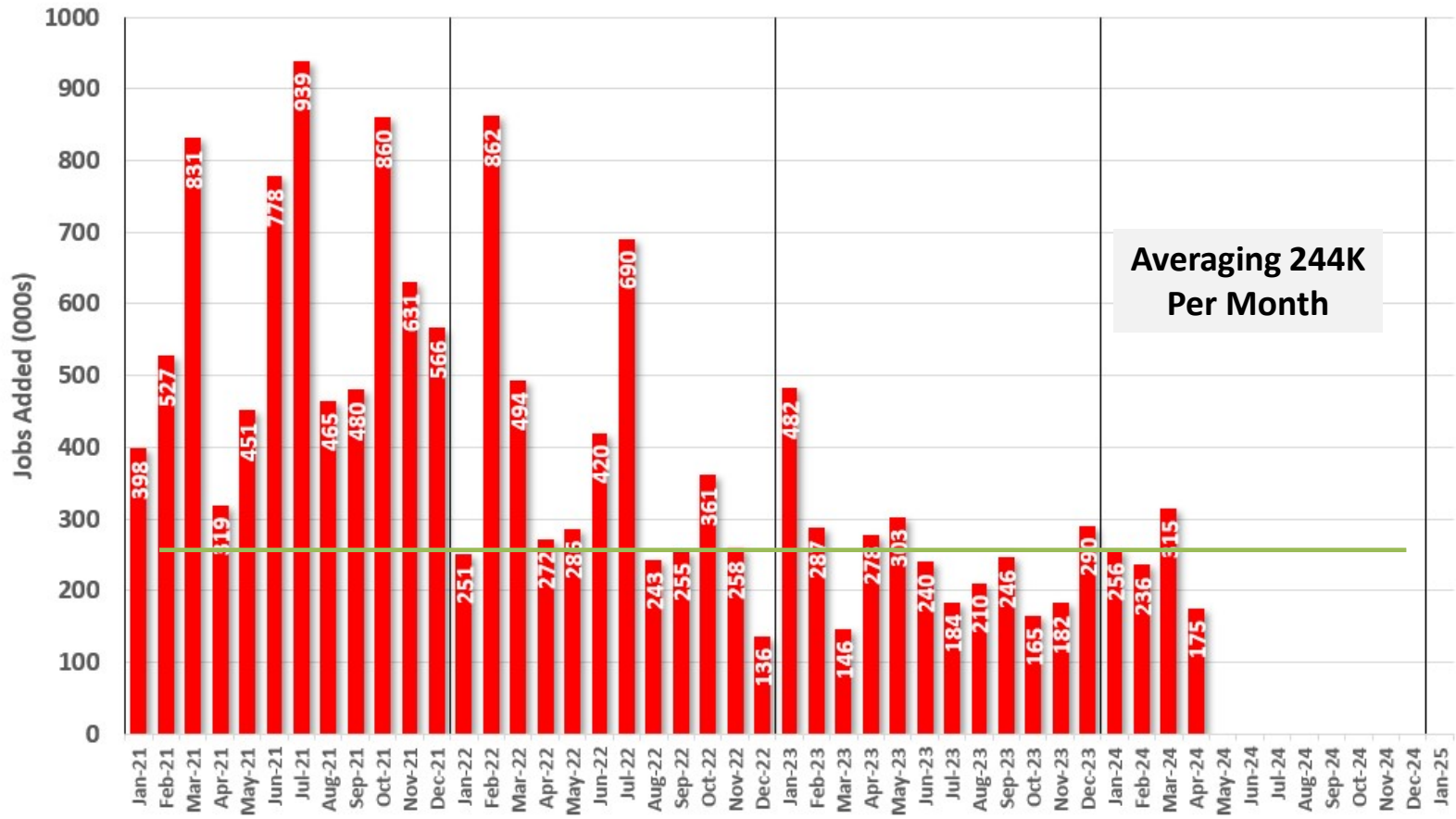
As of May 3rd, Report

Year-over-Year Change in Employment



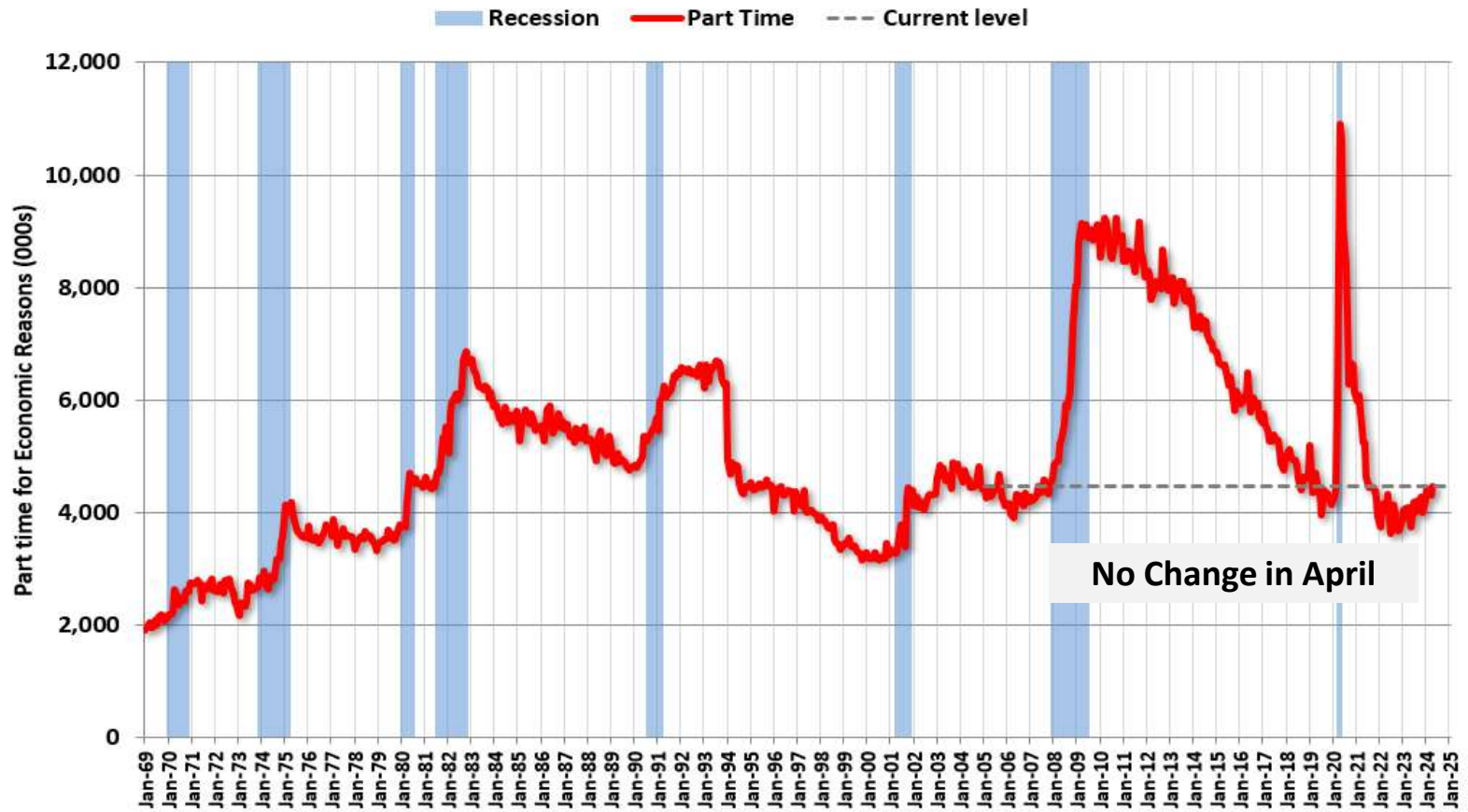
As of May 3rd, Report

Jobs Added per Month



As of May 3rd, Report

Part Time for Economic Reasons

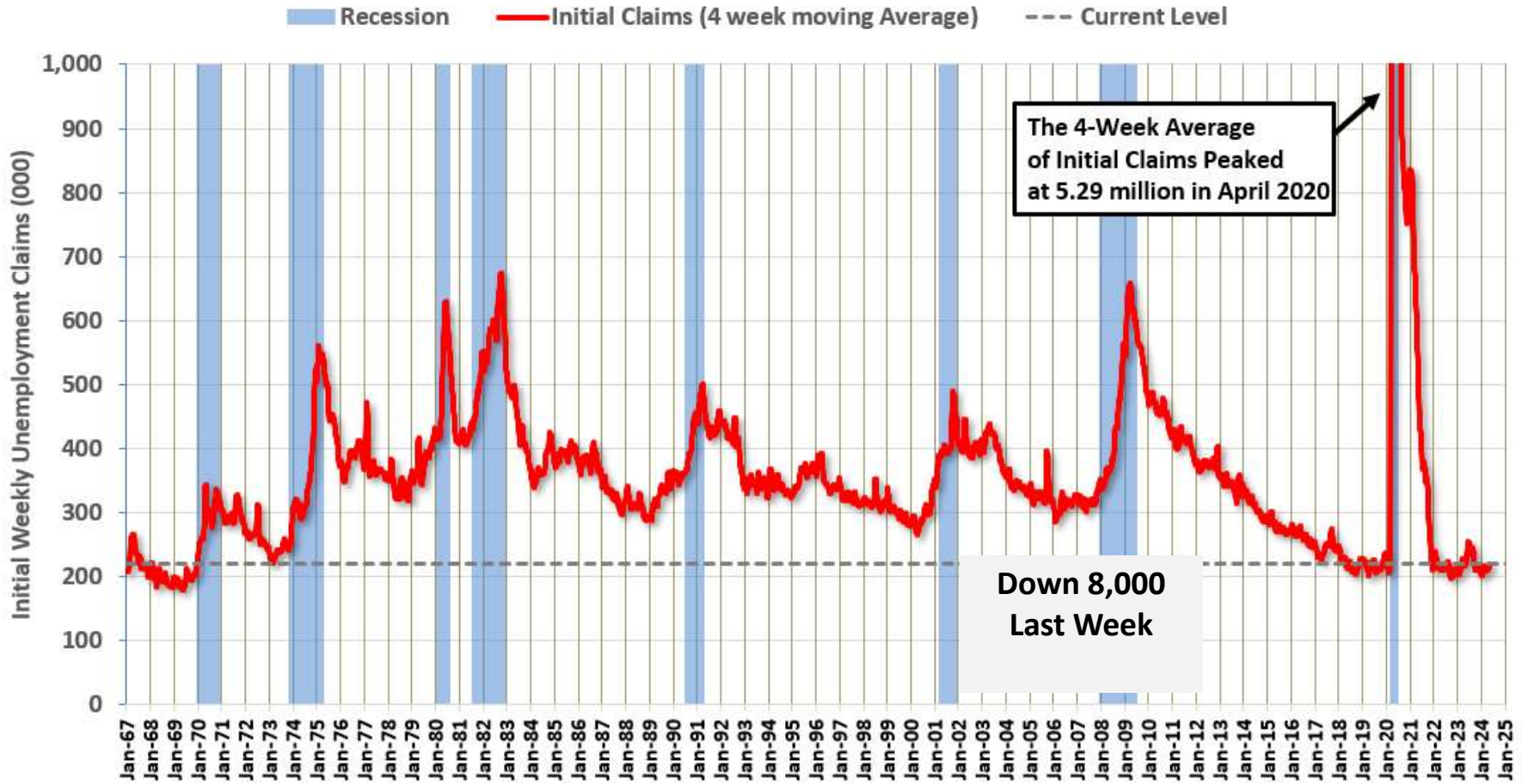


Individuals who would like full time employment but working part time due to low pay at work or unable to find full-time job.

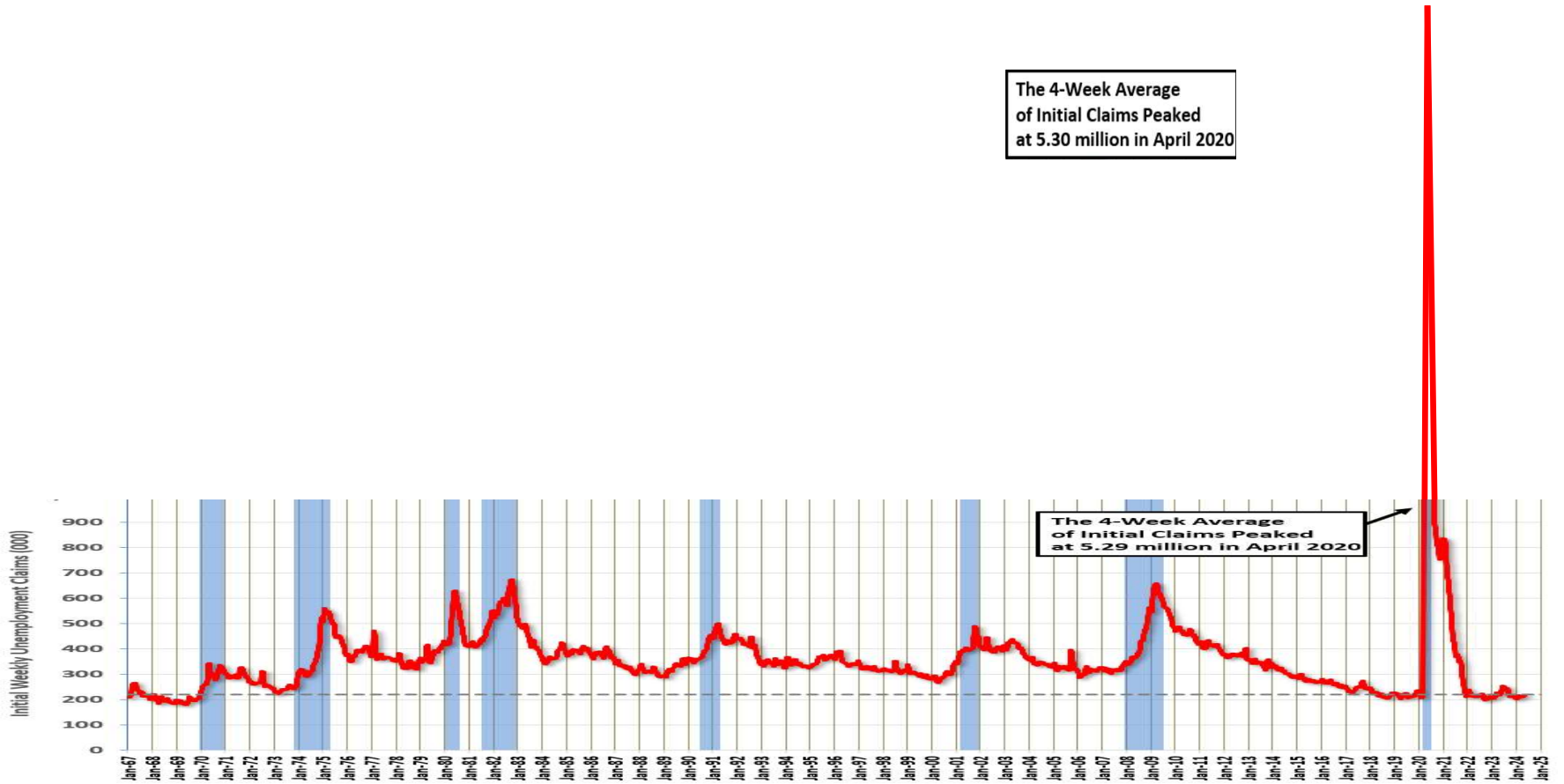
VantageRM.com

As of May 18th, Report

Initial Weekly Unemployment Claims



As of May 18th, Report

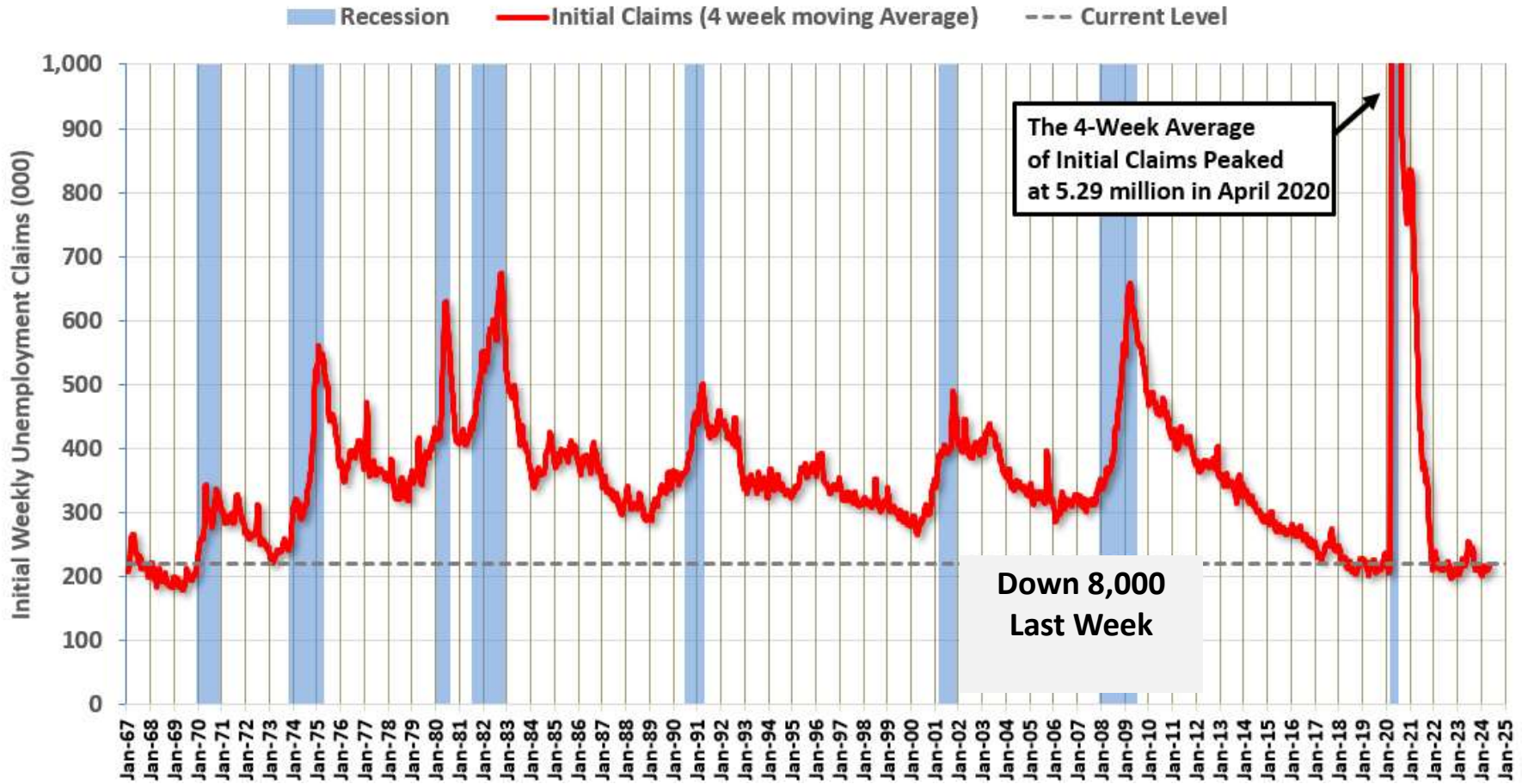


The 4-Week Average of Initial Claims Peaked at 5.30 million in April 2020

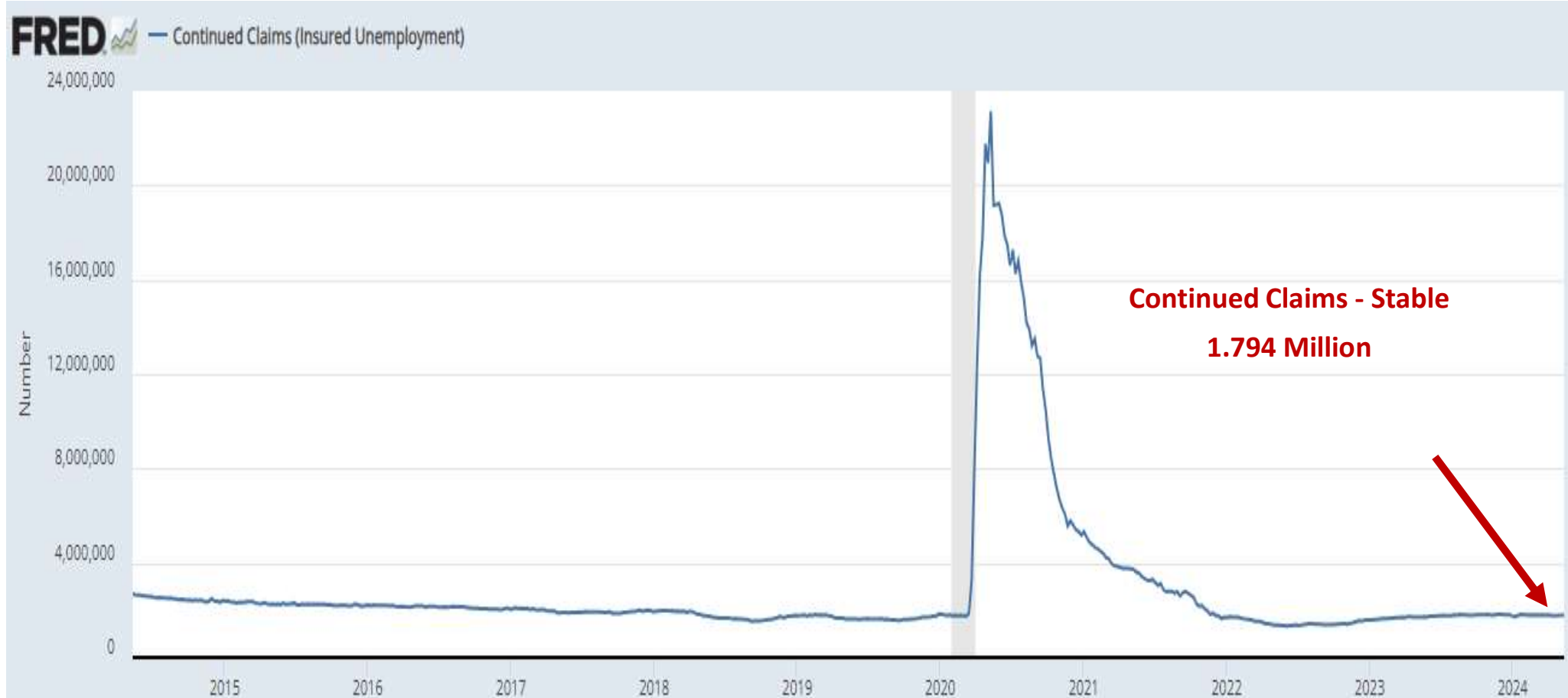
The 4-Week Average of Initial Claims Peaked at 5.29 million in April 2020

As of May 18th, Report

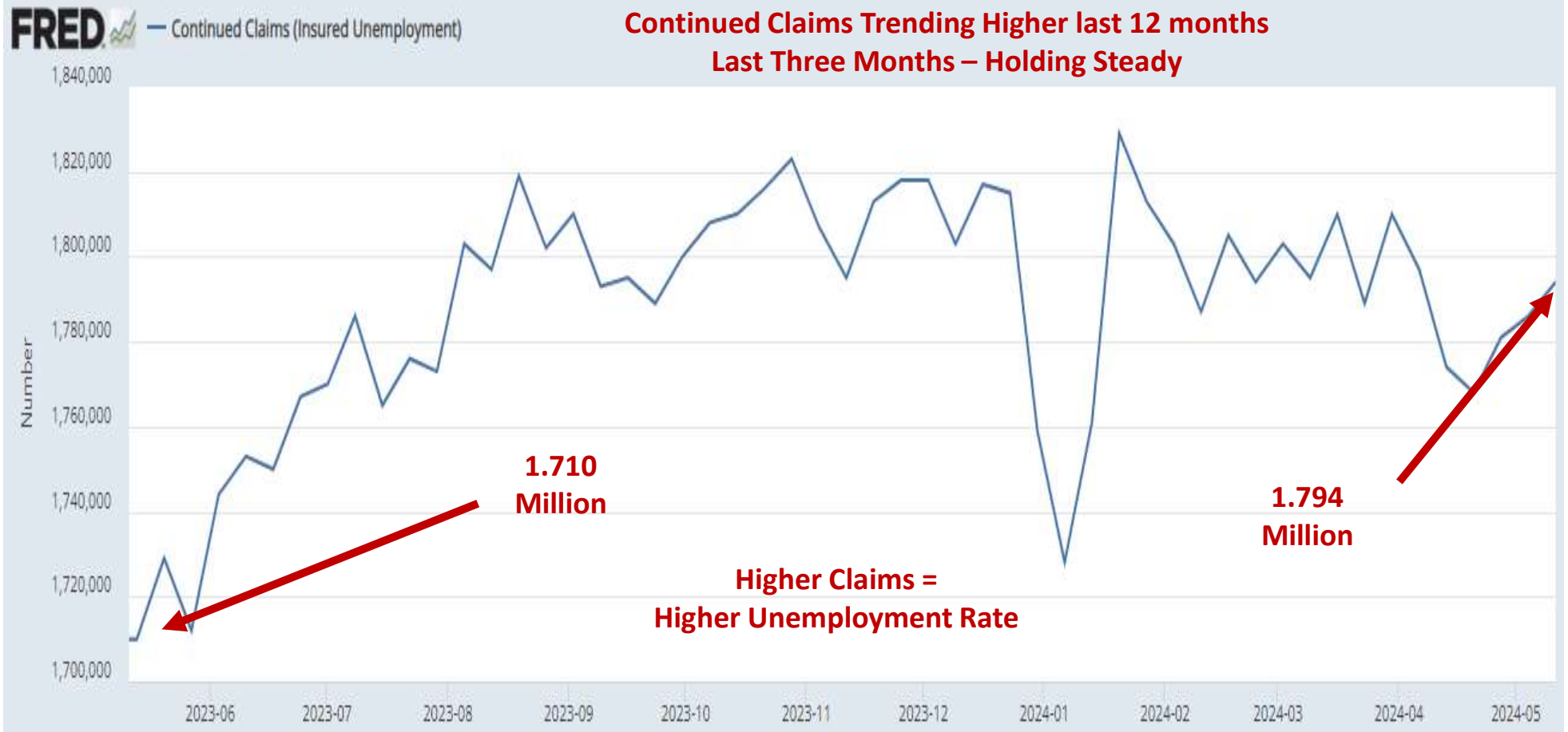
Initial Weekly Unemployment Claims



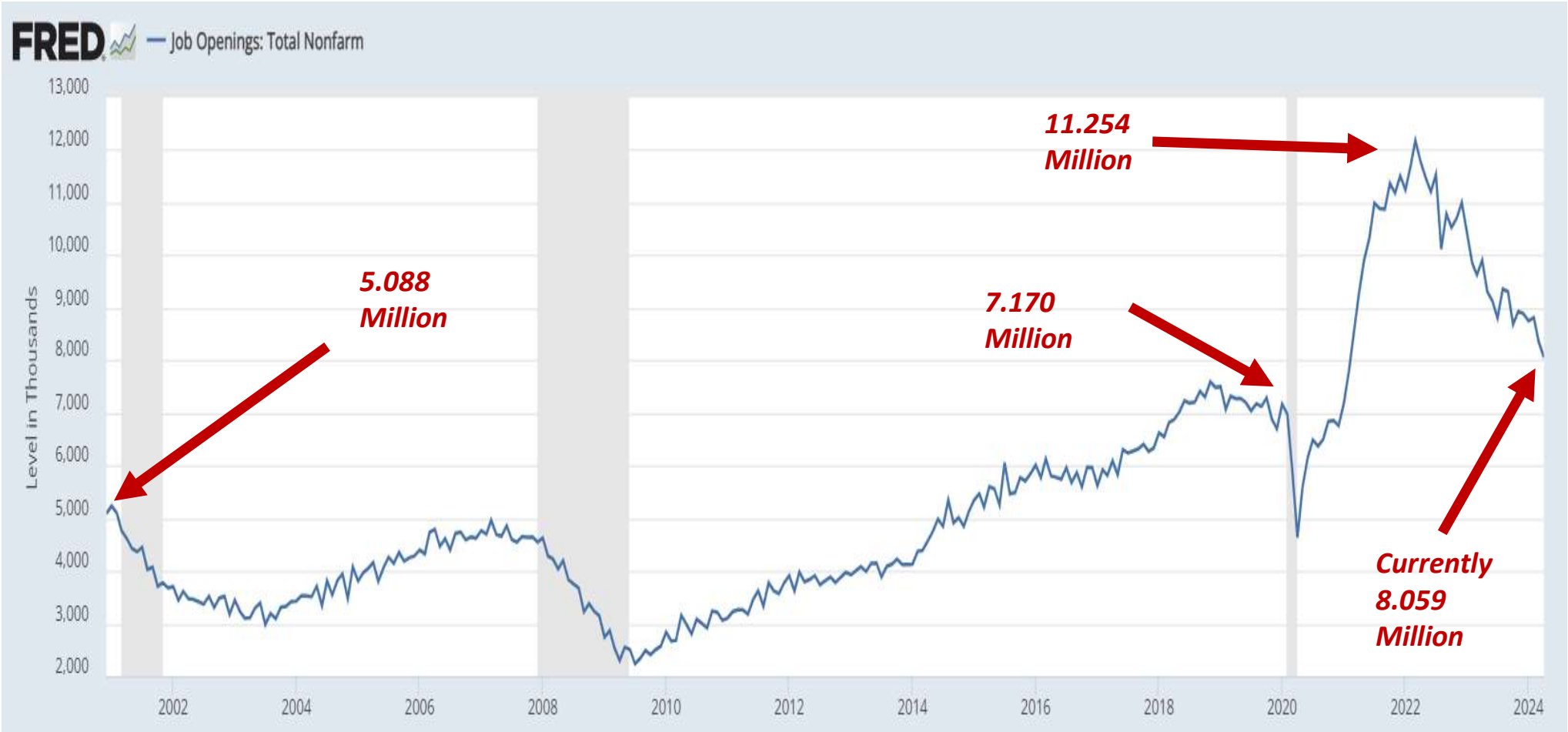
Continued Claims - As of May 18th, Report



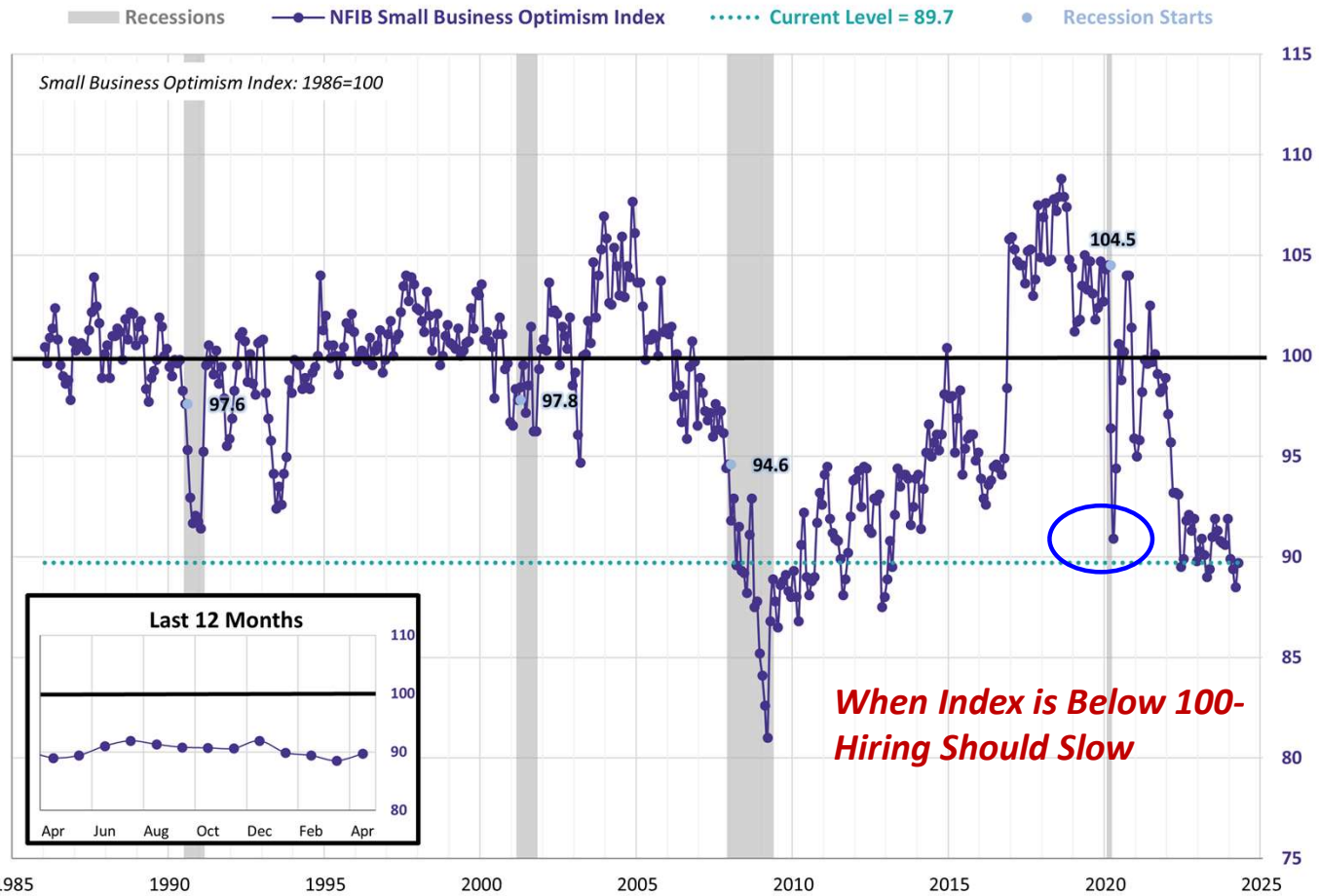
Weekly Continued Claims - As of May 18th



Job Openings As of May 1st



NFIB Small Business Optimism Index



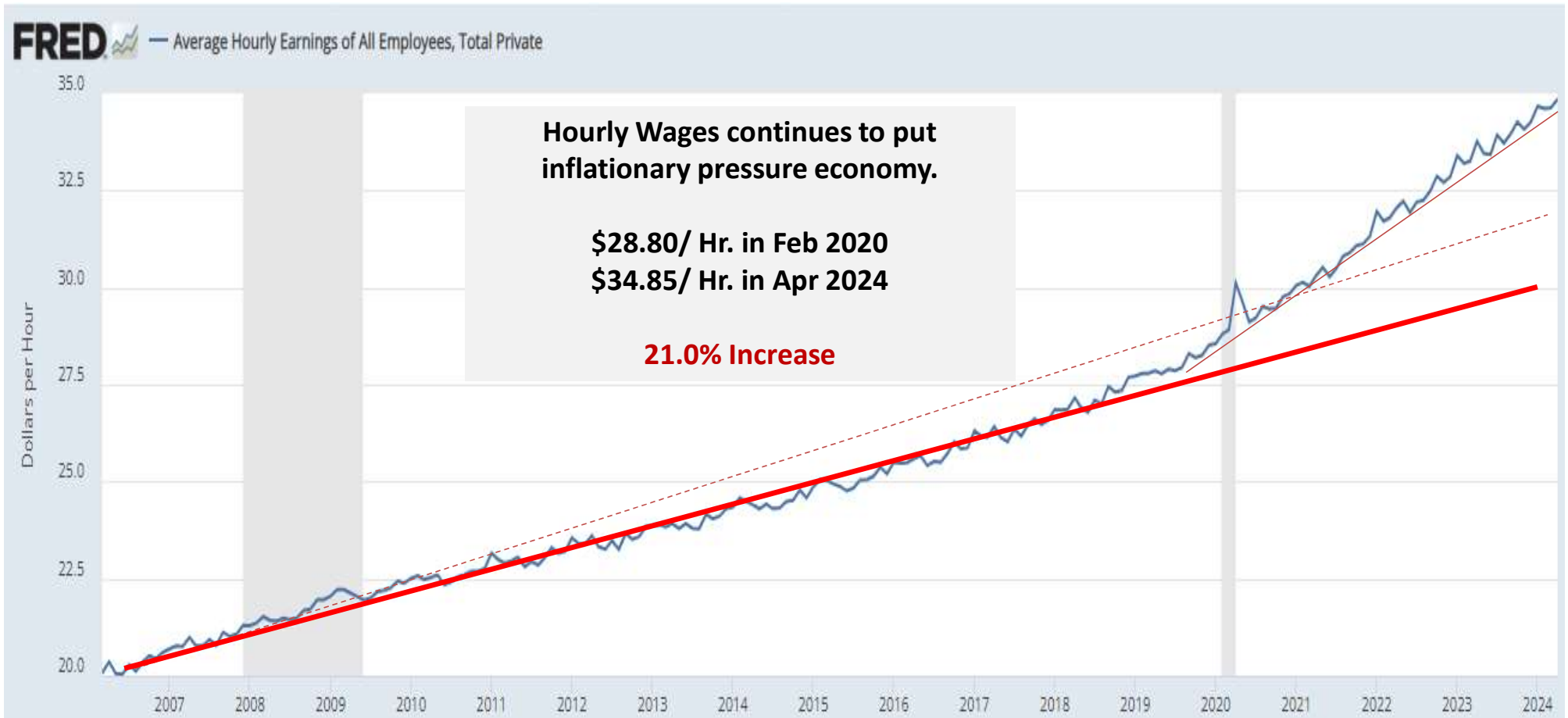
Second Element of Employment

Wage Growth

Wage Growth as of May 3rd, 2024



Wage Growth as of May 3rd, 2024



BTW... Avg Farm Labor - \$17.45/hour



US Economic Environment

“Current Economic Conditions”

- ***US Employment Numbers Indicate:***
 - ***Jobs Market Remains Strong***
 - ***Inflation has had only a Minor Affect on Hirings***
 - ***Wage Growth continues to provide Inflationary Pressure***

US Economic Environment

“Current Economic Conditions”

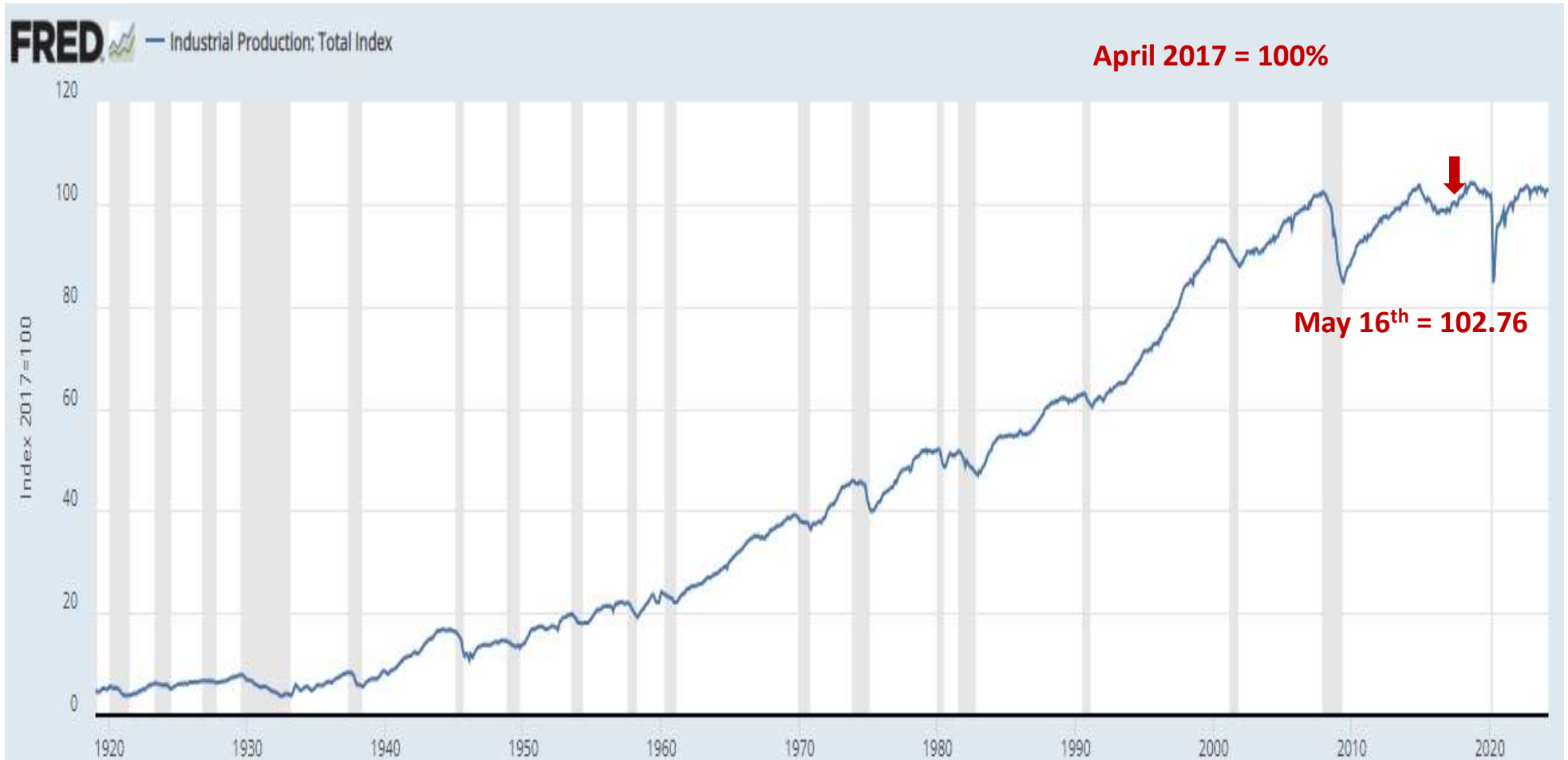
- ***Outlook of “Soft” vs “Hard” vs “No” Landing*** 
- ***US Employment Numbers –*** 
- ***Industrial Production***
- ***Inflation Indicators – How the FED is doing -***
- ***The Washington DC Factor – President – House - Senate???***

Industrial Production

Manufacturing, Mining & Utilities

- Looking for the Signs of a Slowing Economy
 1. Industrial Production Index
 2. Current Level of Production Capability

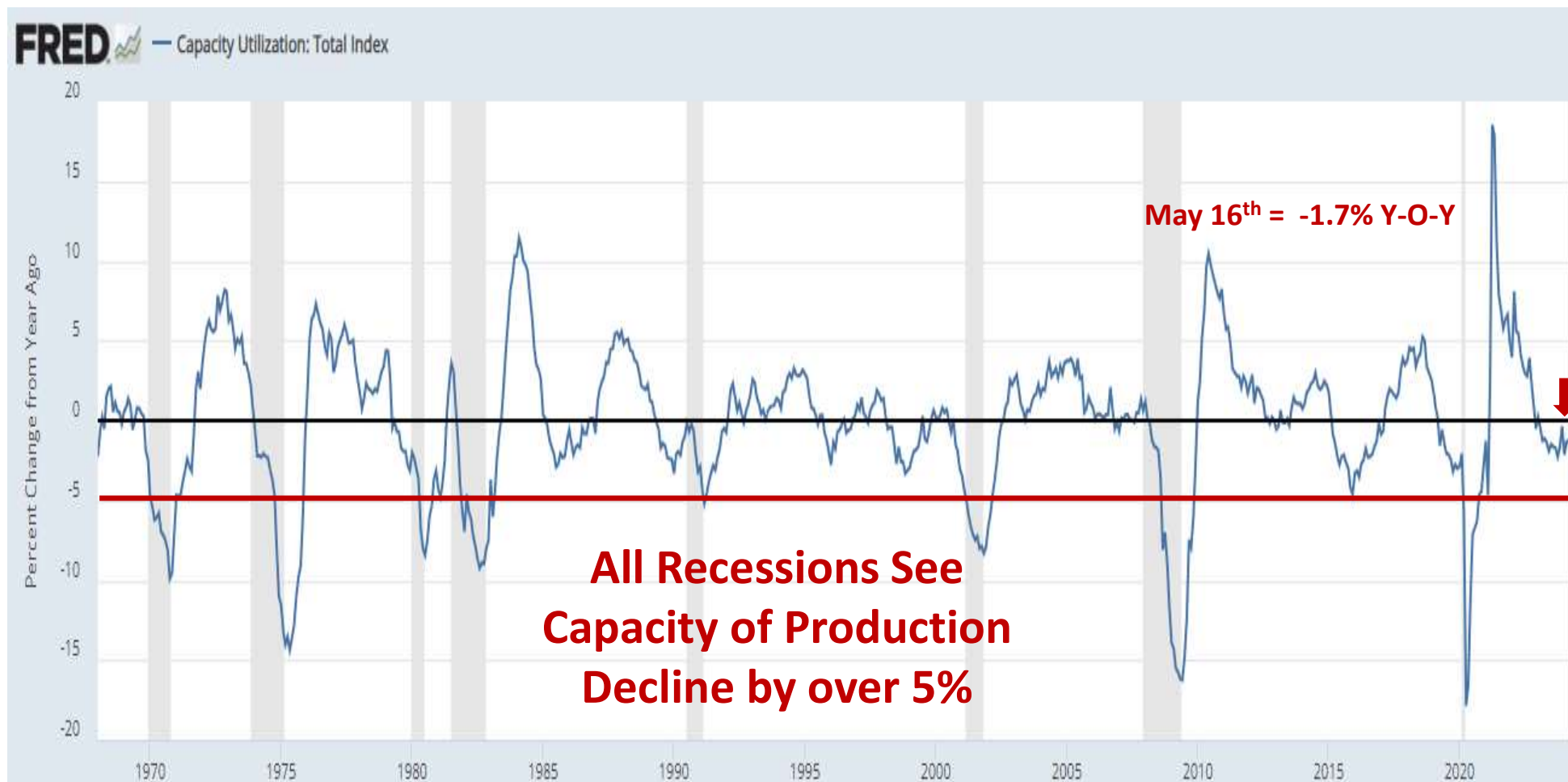
Total Industrial Production Index - As of May 16th, 2024



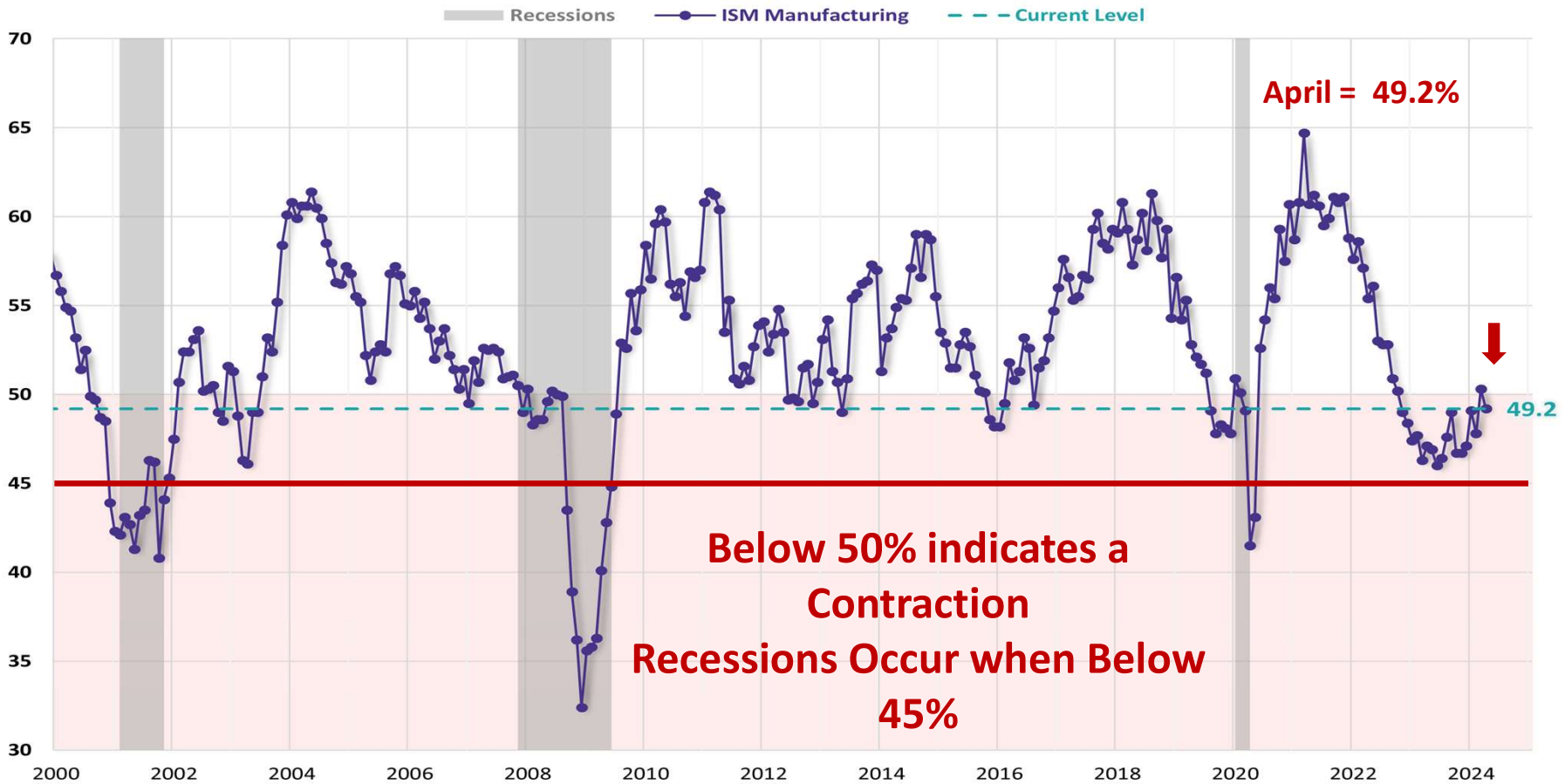
Capacity Usage- As of May 16th, 2024



Total Industrial Production Y-O-Y Change - As of May 16th, 2024



ISM Manufacturing: PMI Composite Index Since 2000



**Below 50% indicates a
Contraction
Recessions Occur when Below
45%**




US Economic Environment

“Current Economic Conditions”

- ***Industrial Production Numbers Indicate:***
 - ***Total Production Remains Strong but Shows Signs of Declining***
 - ***Capacity of Total Production Capabilities Good but Declining***
 - ***Purchasing Managers Index Shows Pessimism on Economy***
 - ***While negative in General – Favors a Soft-Landing Outcome***

US Economic Environment

“Current Economic Conditions”

- ***Outlook of “Soft” vs “Hard” vs “No” Landing*** 
- ***US Employment Numbers –*** 
- ***Industrial Production*** 
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- ***The Washington DC Factor – President – House - Senate???***

The Fed and Inflation

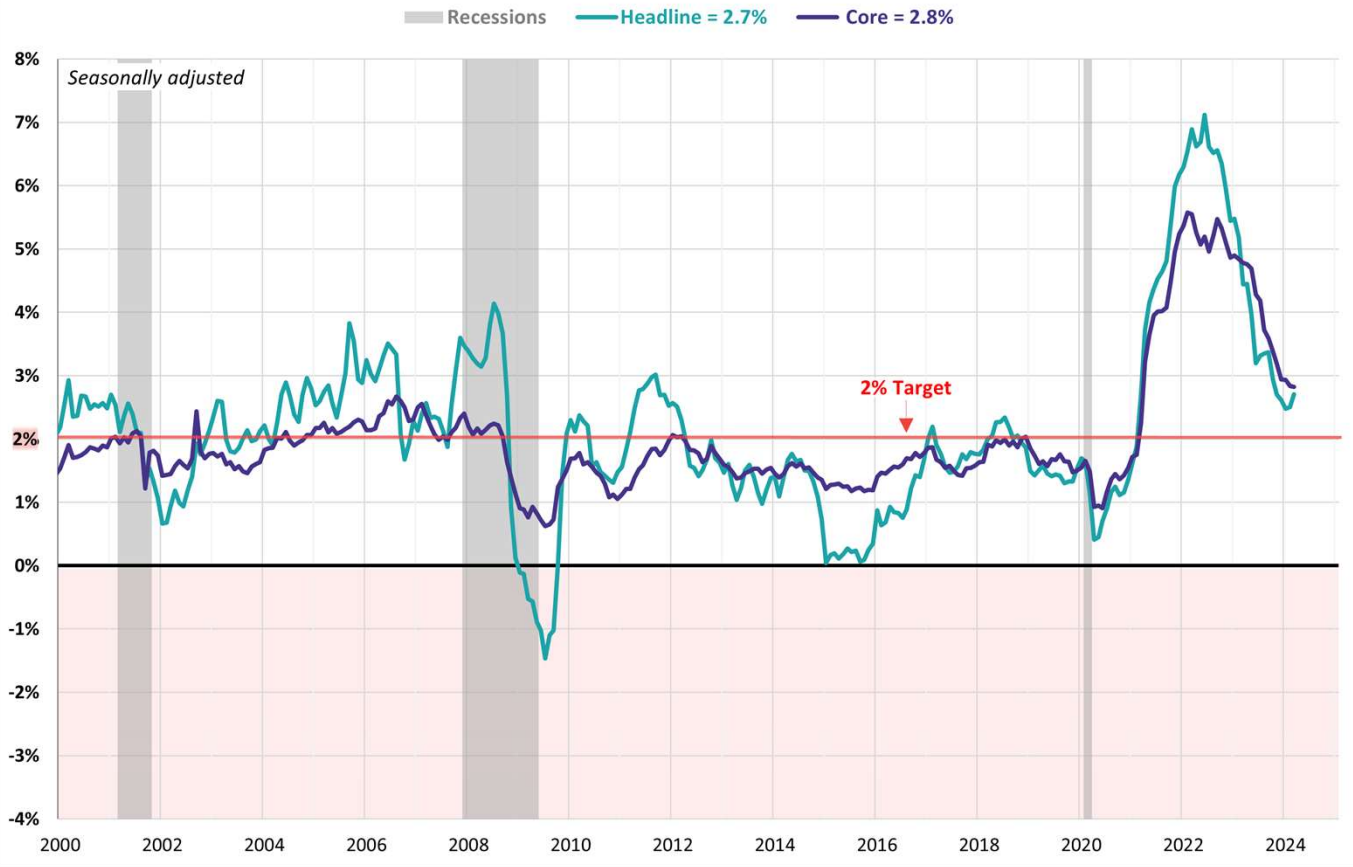
- Federal Reserve - Mandated by Congress to promote:
 - Price Stability
 - Maximum Employment
- FOMC has stated what indicates reaching these goals
 - PCE of 2%
(Personal Consumption Expenditure excluding food and energy)
 - Unemployment rate between 4 and 5%

The Fed and Inflation

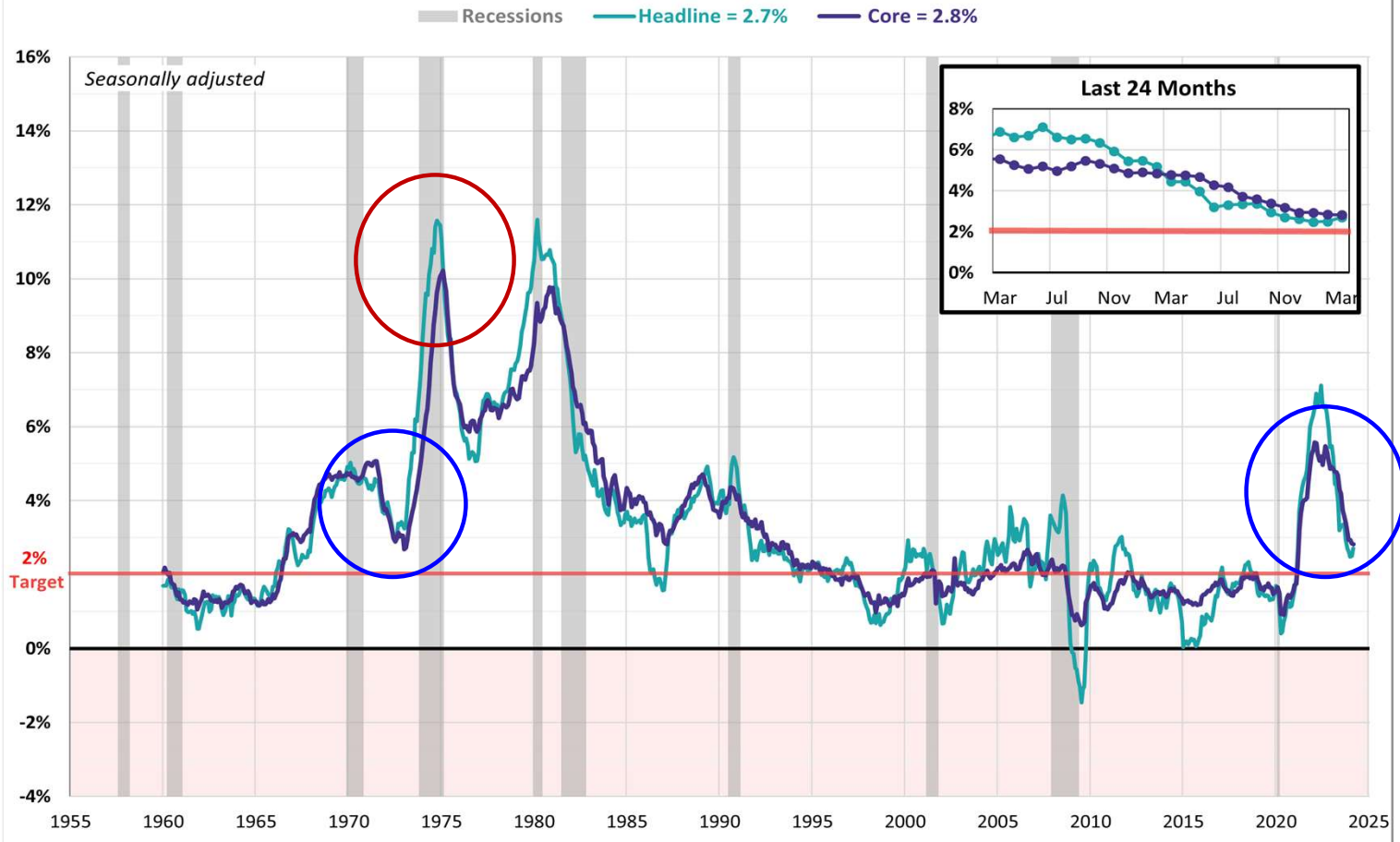
- The Current Situation –
 - PCE is at **2.8%** (4.8%)*
Over 2.5% is inflationary
 - Unemployment rate at **3.9%** (3.4%)*
Under 4% is inflationary

* - One Year Ago

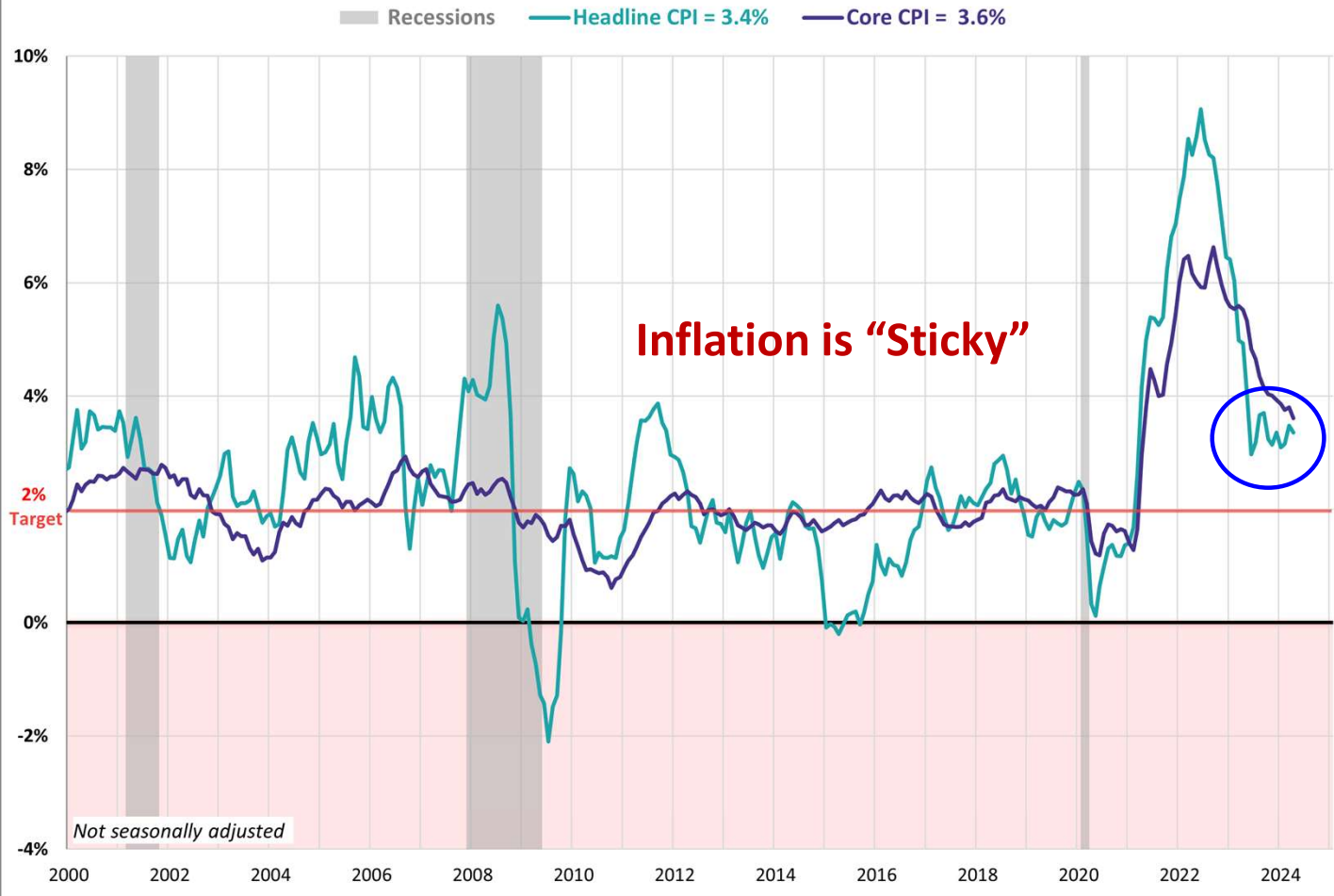
Personal Consumption Expenditures (PCE) Price Index Year-Over-Year Since 2000



Personal Consumption Expenditures (PCE) Price Index Year-Over-Year

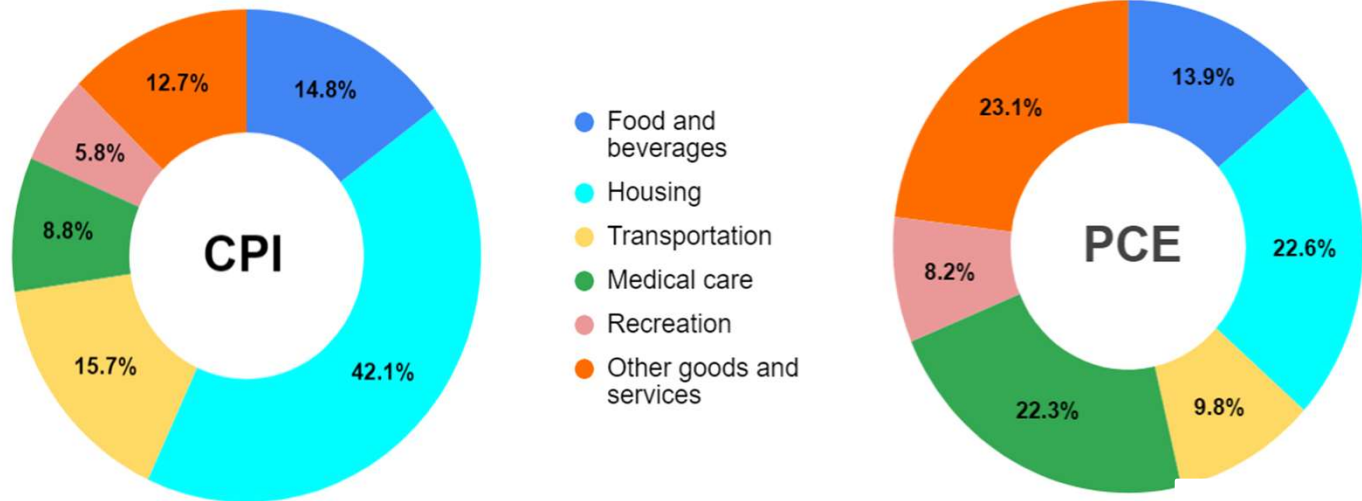


Consumer Price Index: Year-Over-Year



Differences between CPI and PCE

How does the PCE weigh items compared to the CPI?

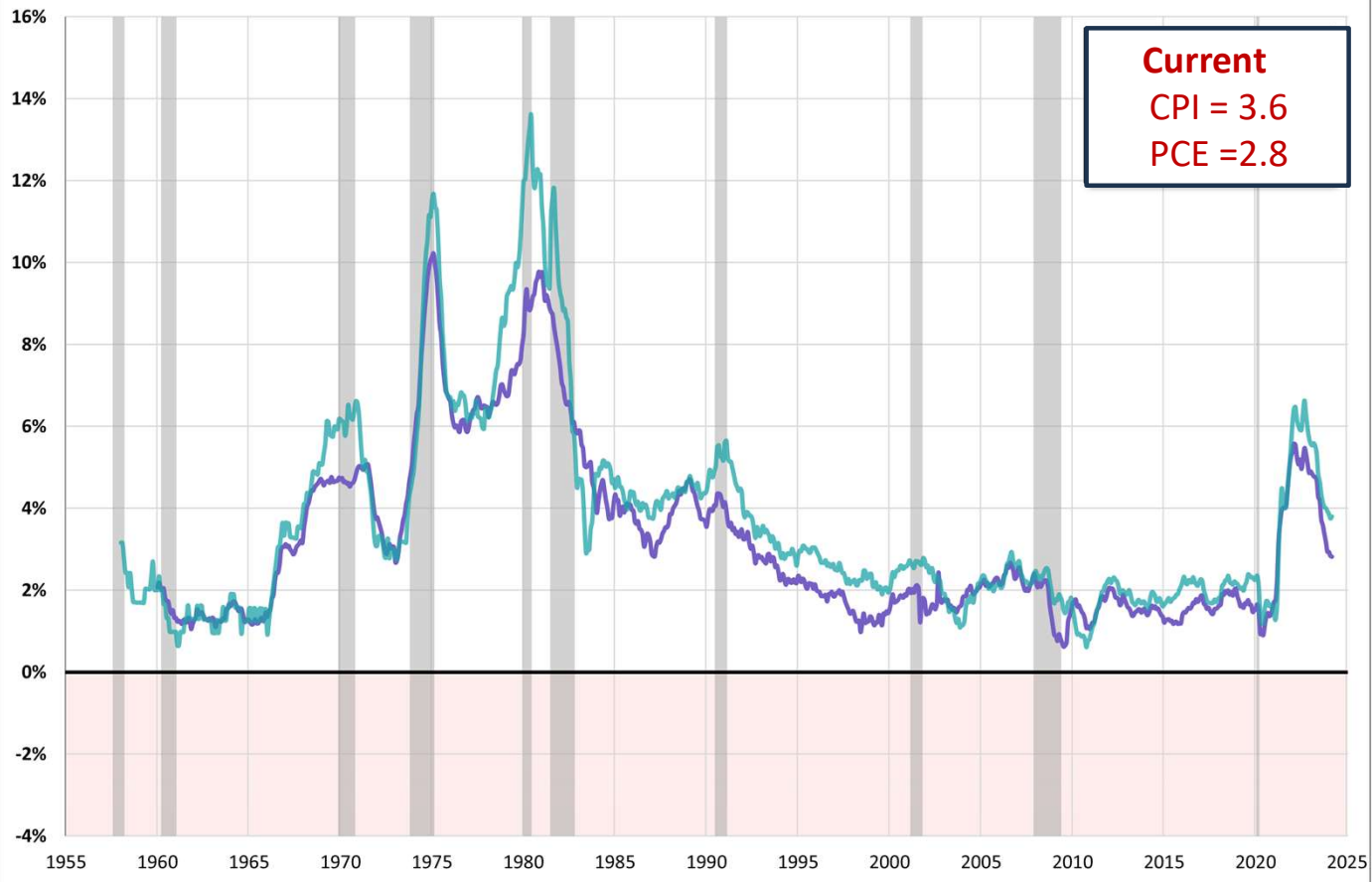


Source: BLS, BEA

Core CPI – 3.6

Core PCE – 2.8

The Core Comparison: CPI and PCE



Question Remains:

Can the FED bring inflation under control without a recession?

Verdict remains out but...

FED will adjust the Cost of Money to the Economy based on

Economic Data and Financial Conditions

The FED Stance has Changed Regarding Cost of Money to the Economy



The Federal Reserve
(Fed)



Banking System



The Treasury



Congress

Three Stances-

1- Accommodating

2- Neutral (Pause)

3- Restrictive

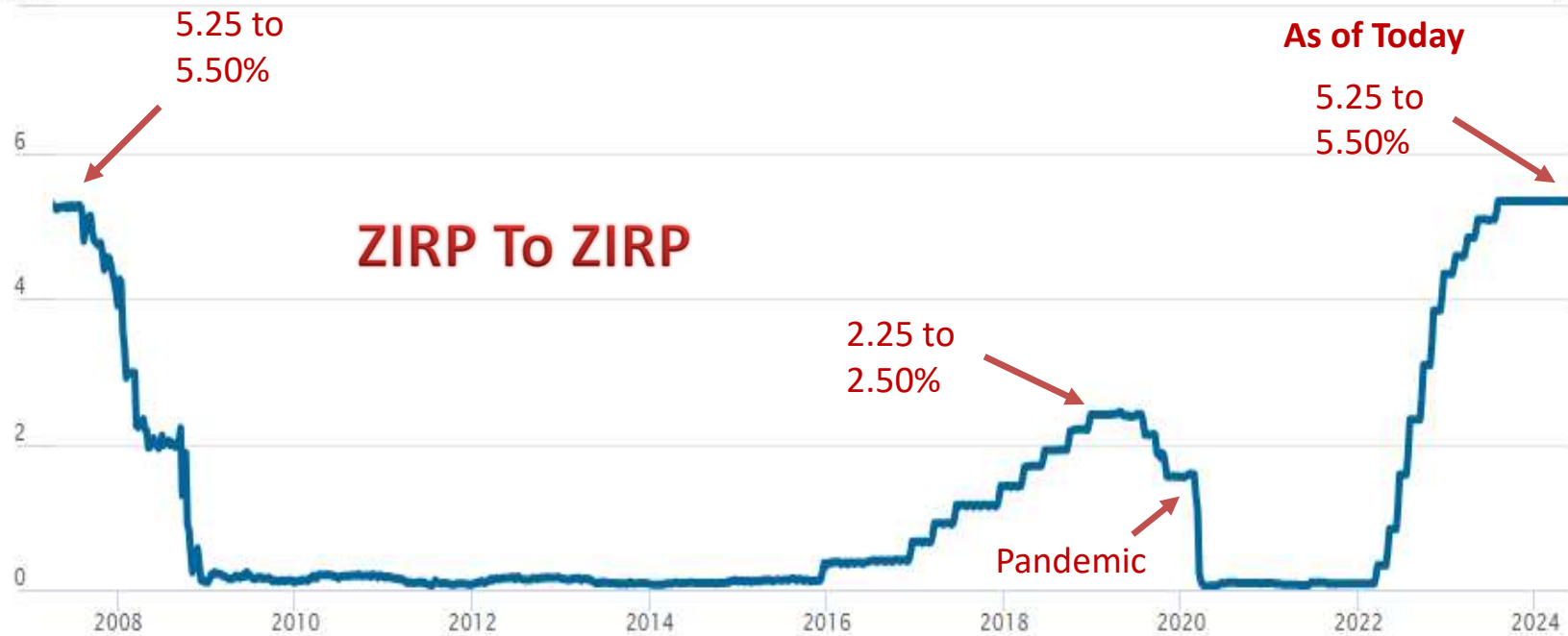
FEDERAL FUNDS CHART

1m 3m 1y All

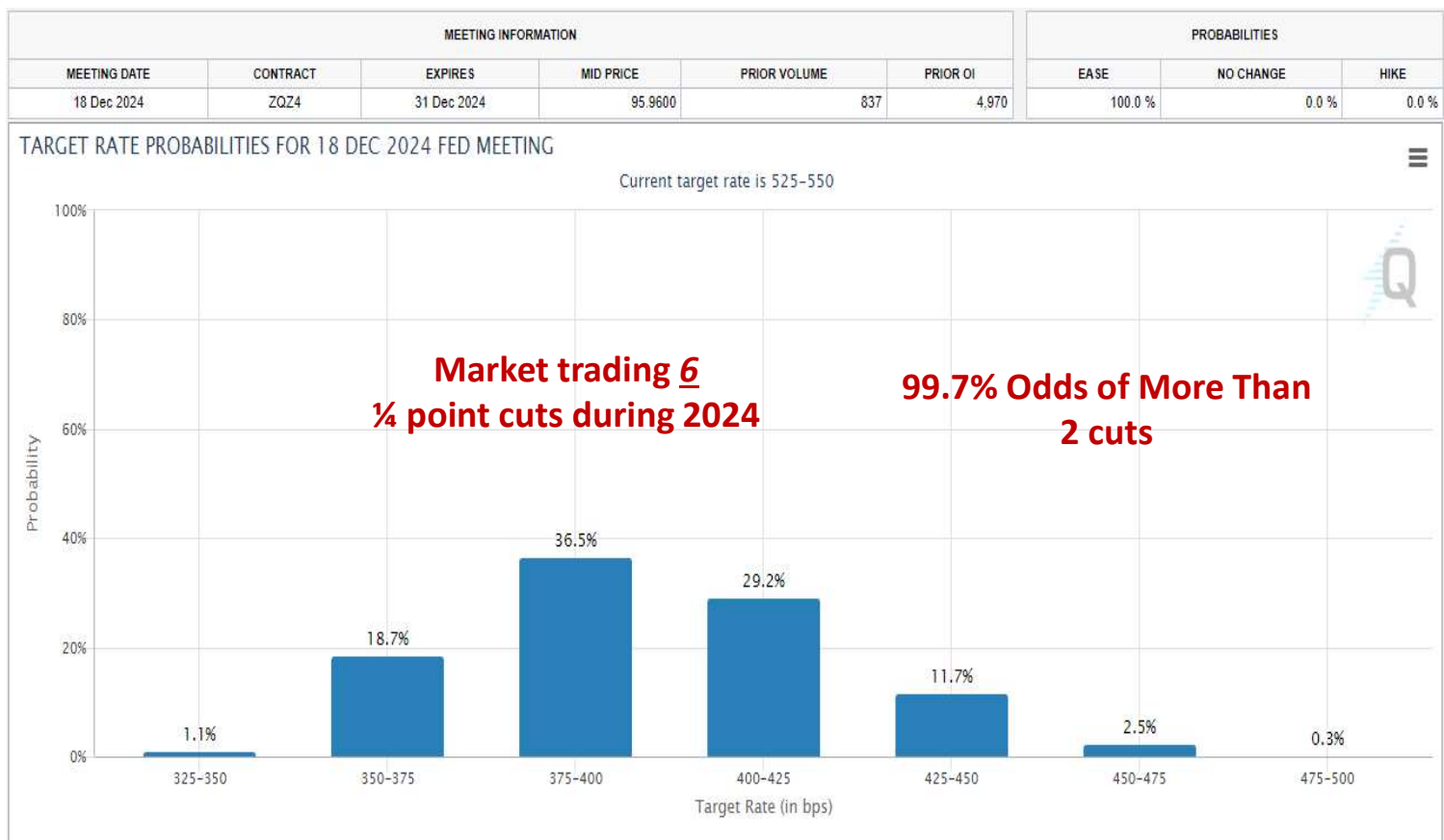
From To

● Target Rate/Range — EFFR — Volume
\$Billions

Percent



Market Trading Change from Current Rate – End of Year -2024 (Jan 9)



Market Trading Change from Current Rate – End of Year -2024 (Feb 8)

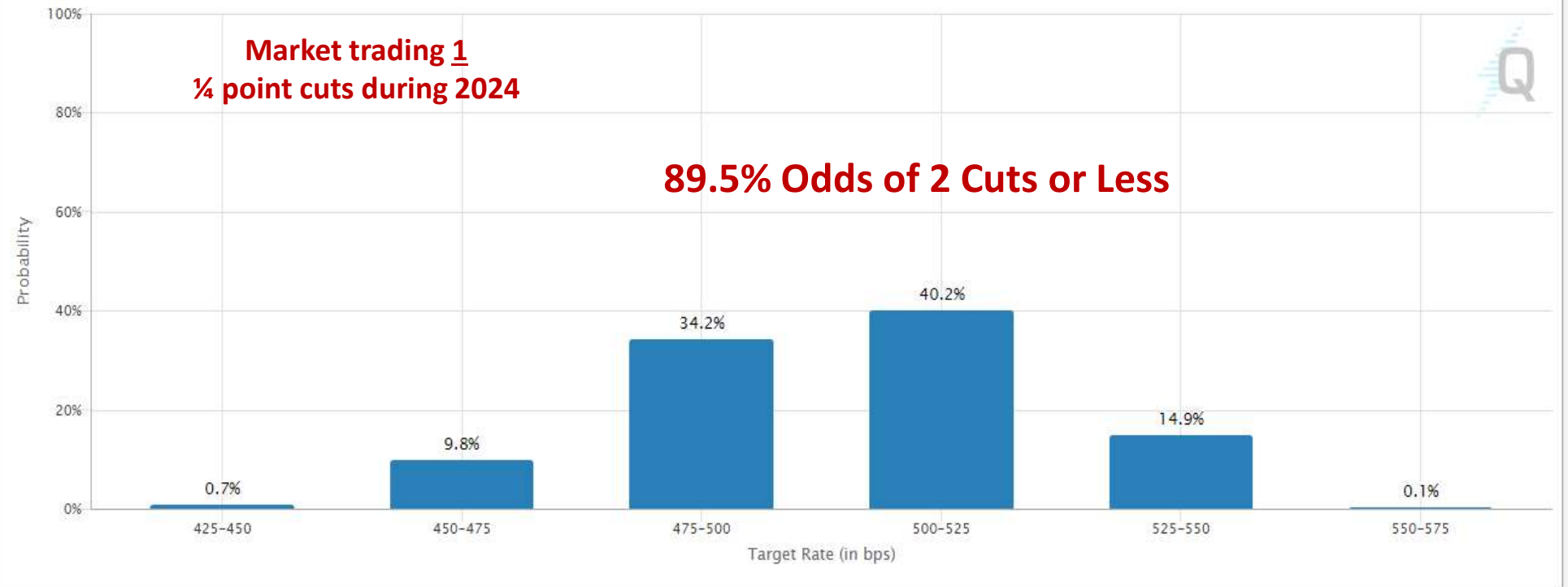


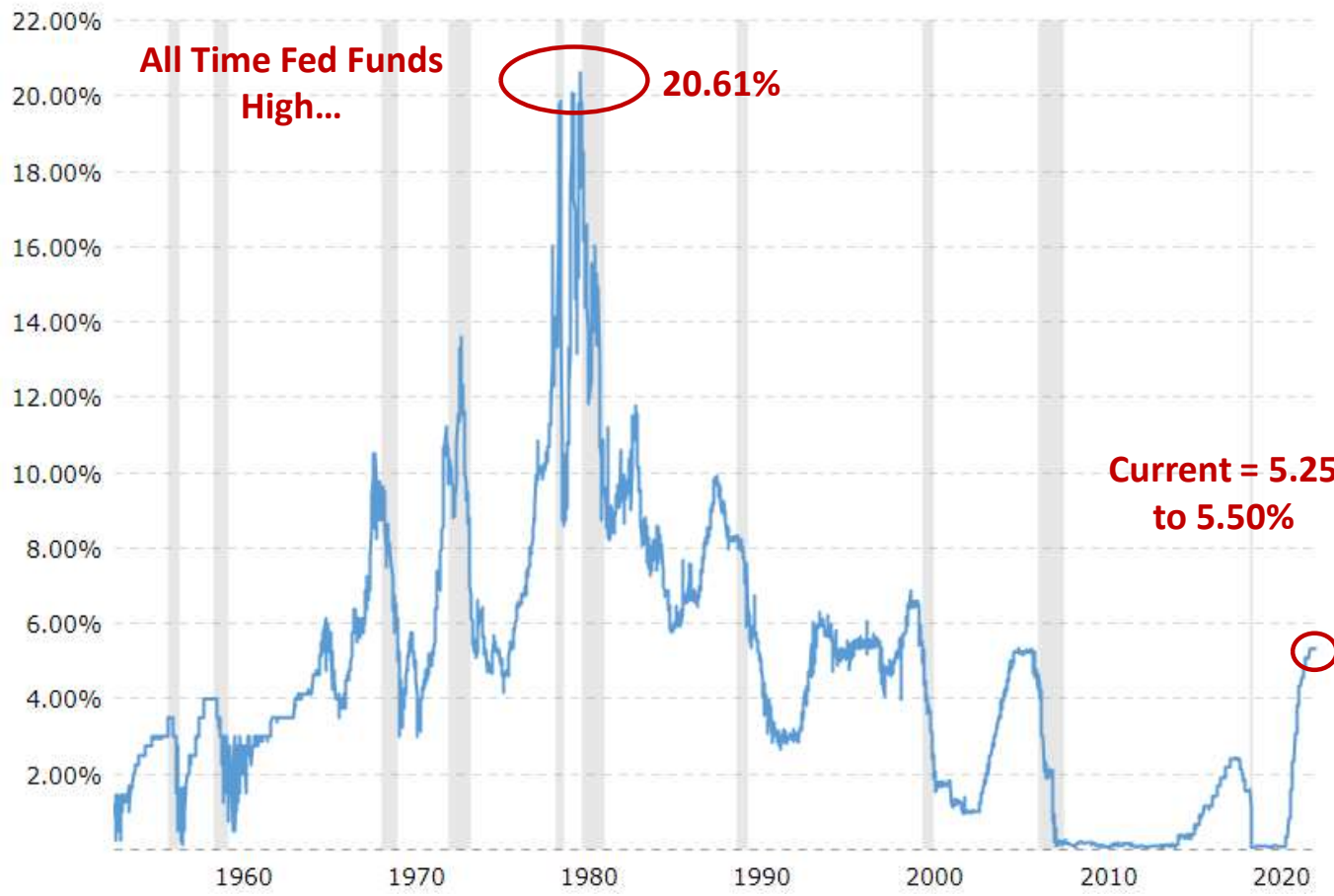
Market Trading Change from Current Rate – End of Year -2024 (May 28)

MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
18 Dec 2024	ZQZ4	31 Dec 2024	94.9475	3,212	48,392	84.9 %	14.9 %	0.1 %

TARGET RATE PROBABILITIES FOR 18 DEC 2024 FED MEETING

Current target rate is 525-550





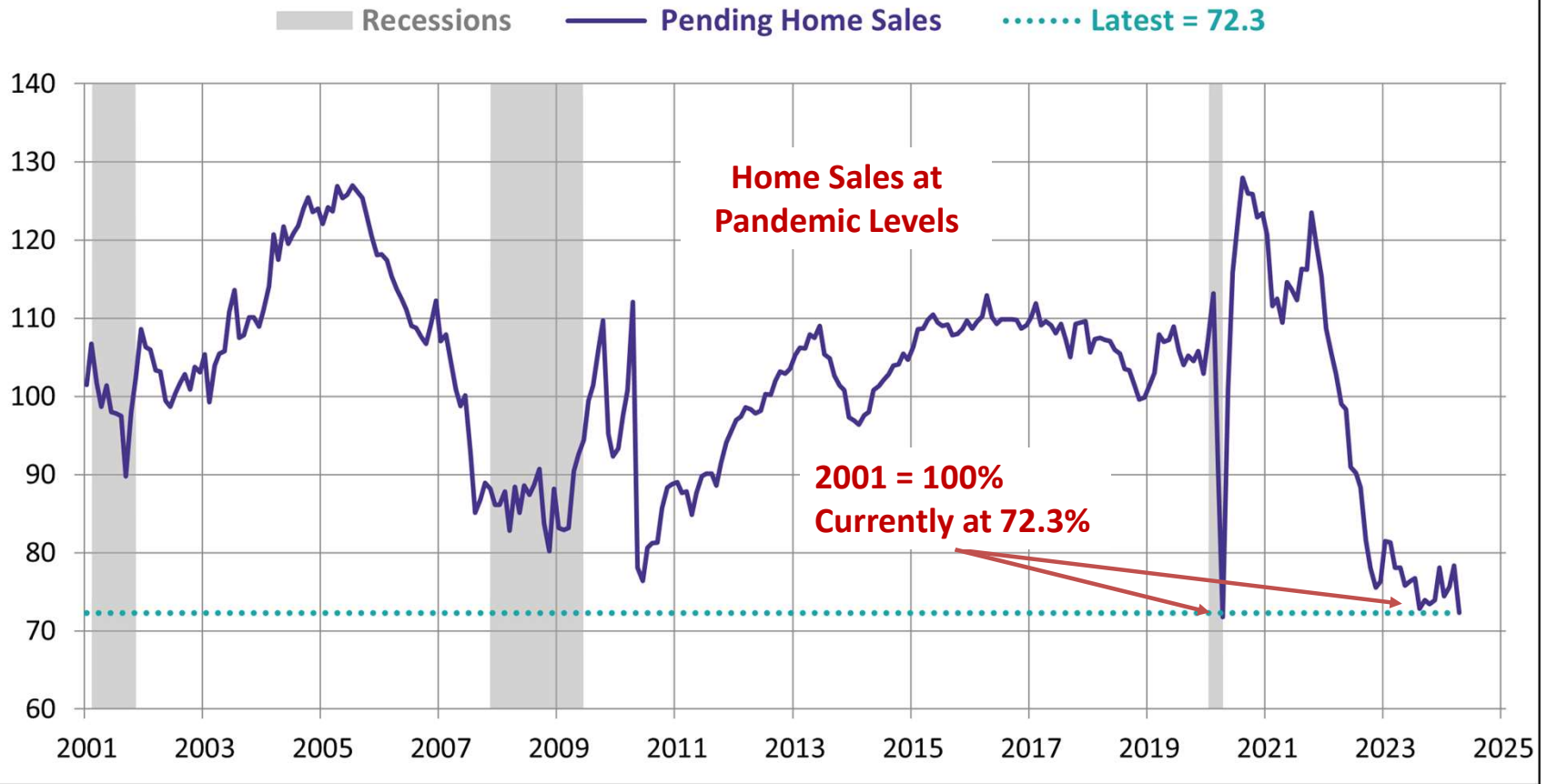
My Radar Screen for the Economy in 2024



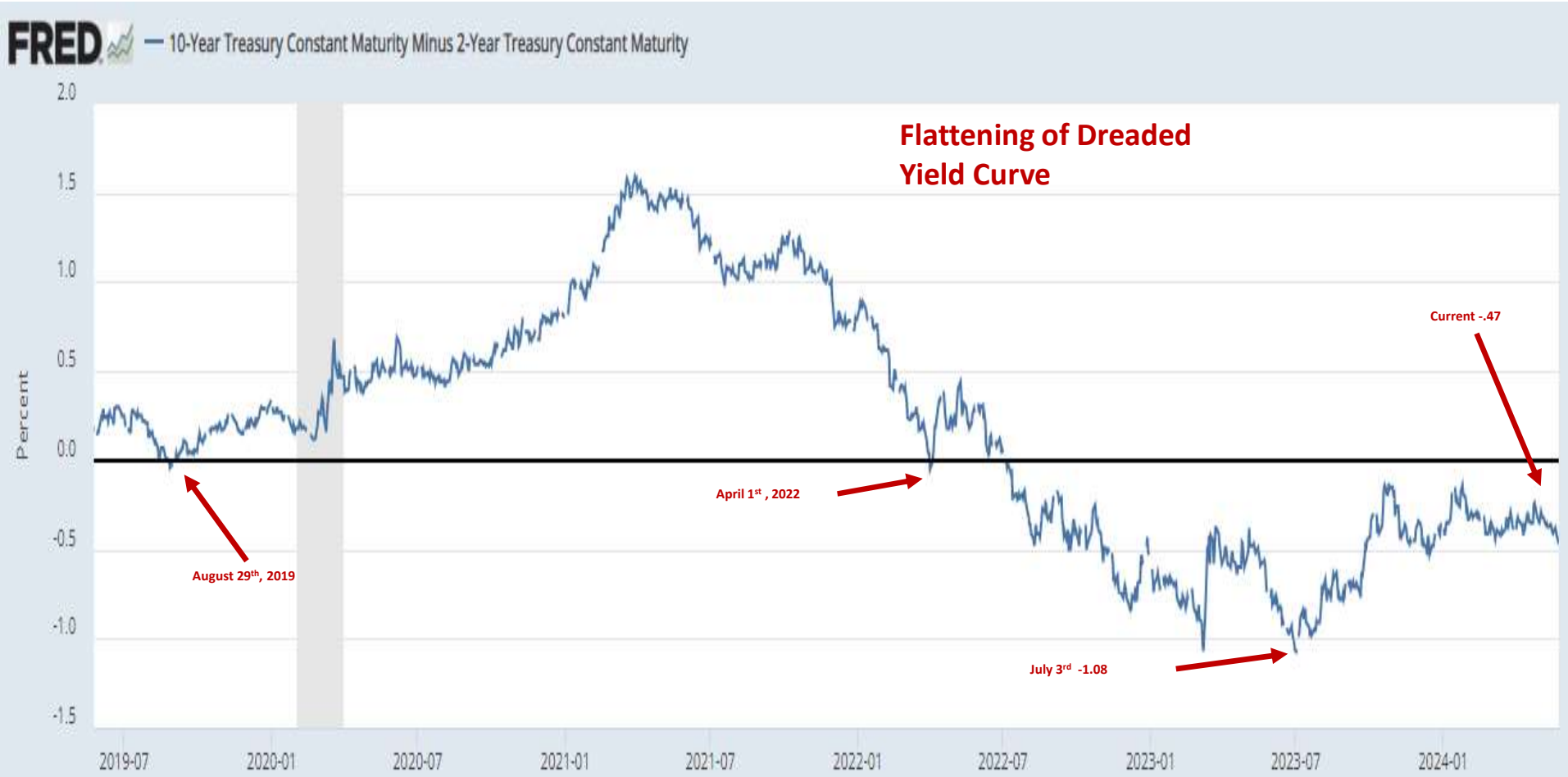
30-Year Fixed Mortgage Rate May 25th, 2014, to May 26th, 2024



Pending Home Sales Index



As of May 27th, 2024



FRED

10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



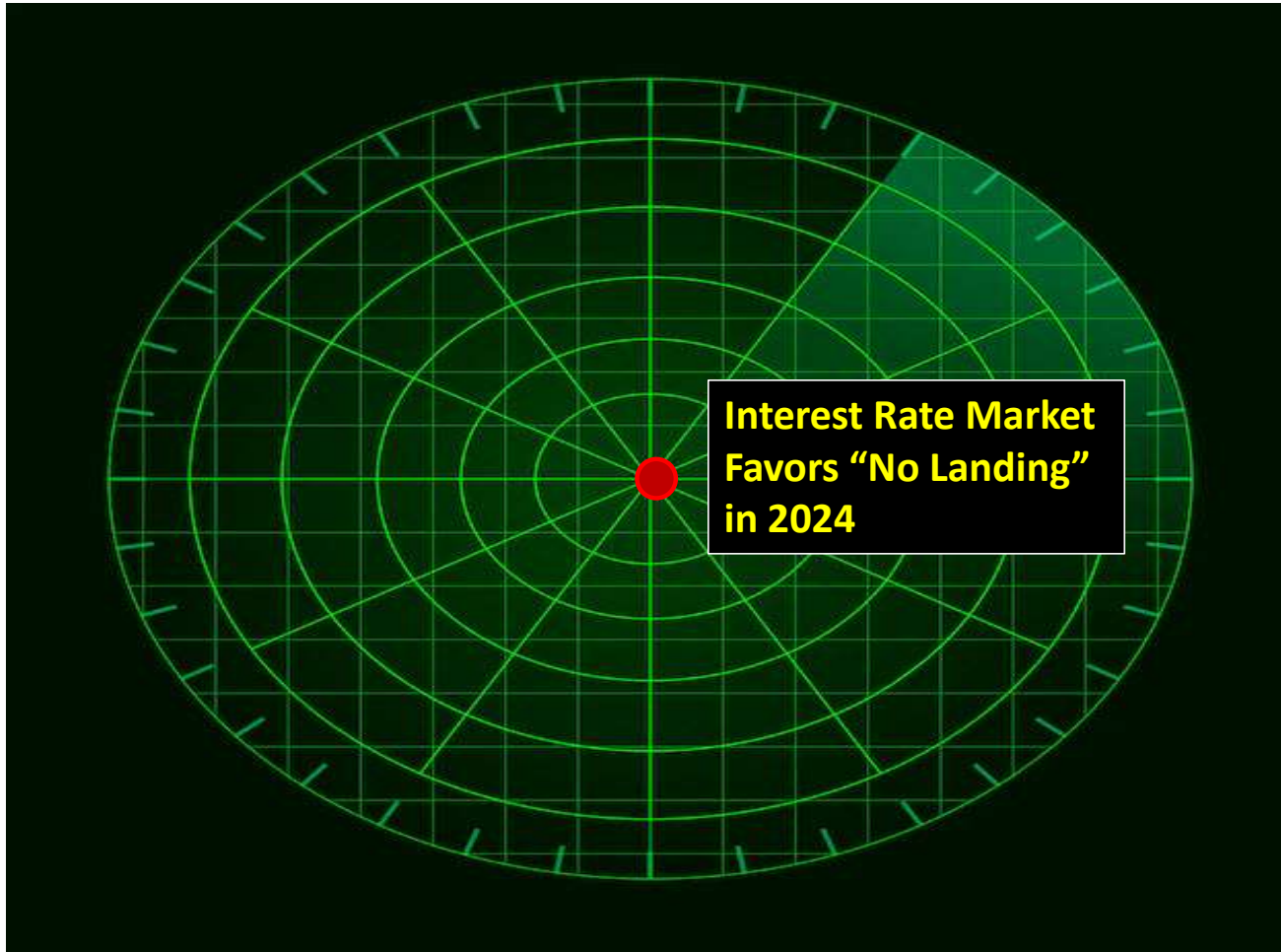
As of May 27th, 2024



As of May 31st, 2024



My Radar Screen for the Economy in 2024?



FACT:

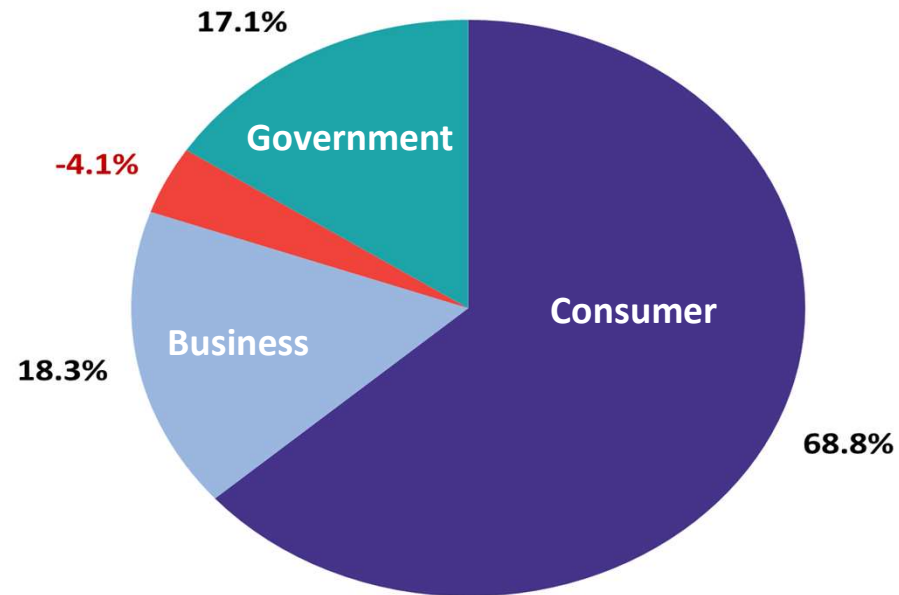
Fed will Cut Rate ONLY IF:

The Economy is Cooling too fast,

Putting Downward Pressure on GDP.

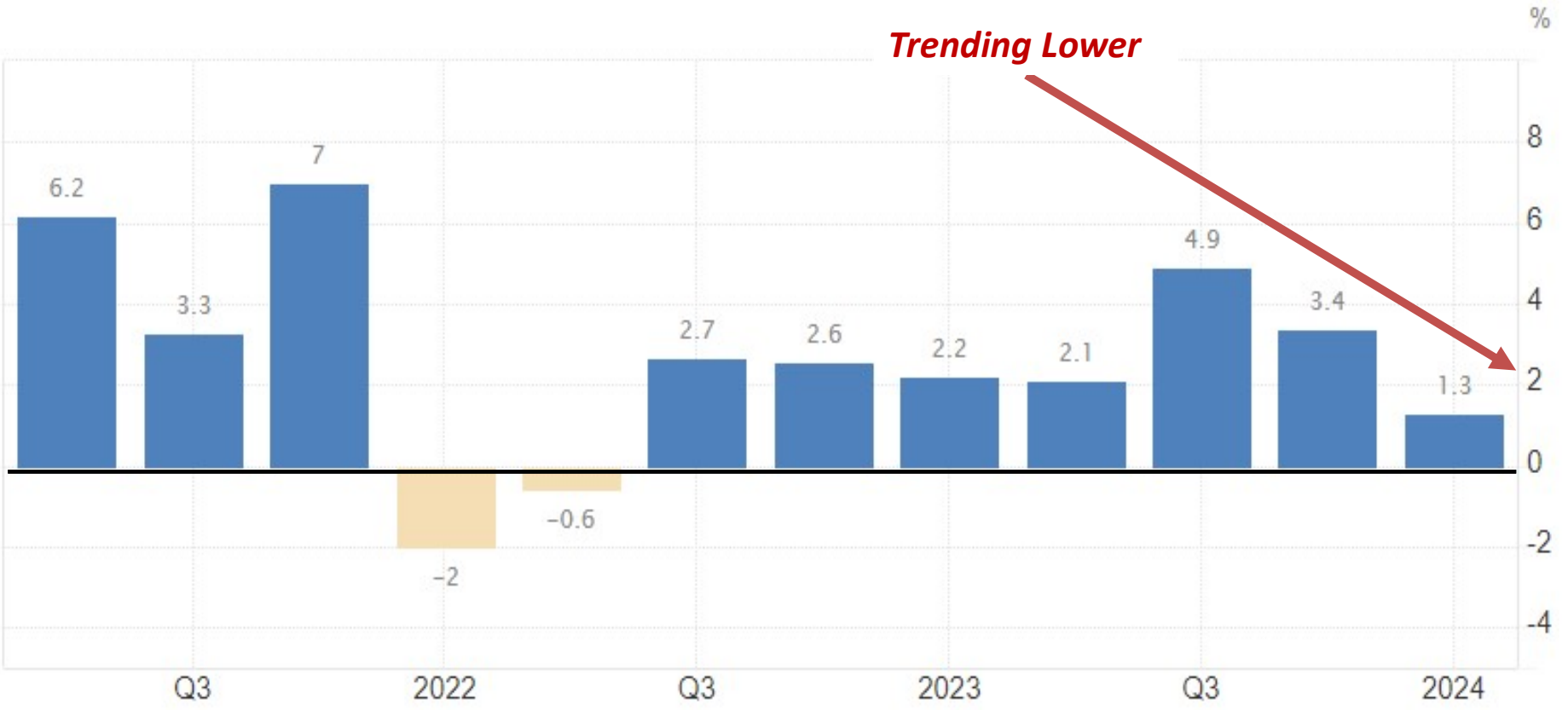
The Four Components of GDP

- Personal Consumption Expenditures
- Gross Private Domestic Investment
- Net Exports of Goods & Services
- Government Consumption Expenditures & Gross Investment

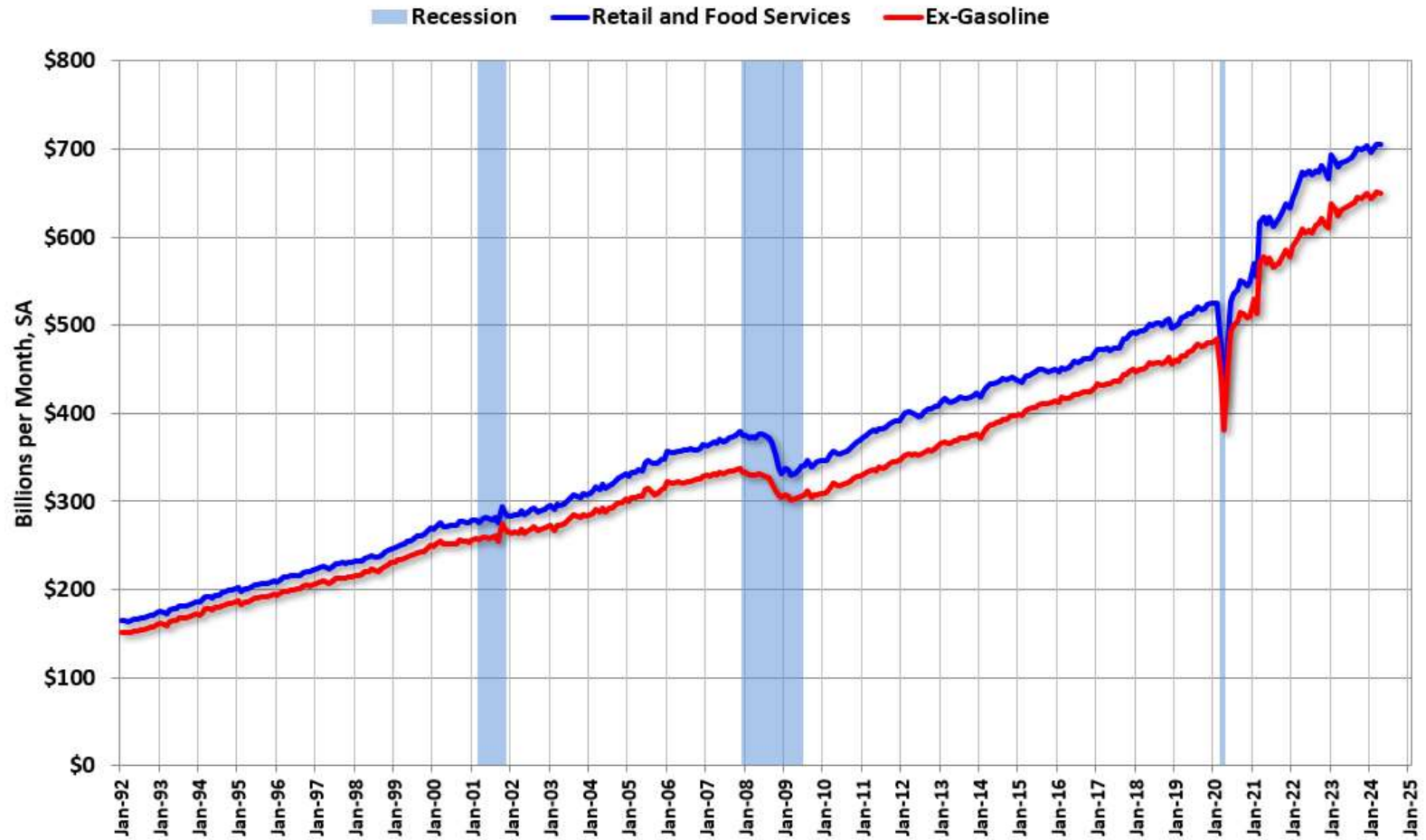


*Is it Working –
Are Consumers feeling the pinch?*

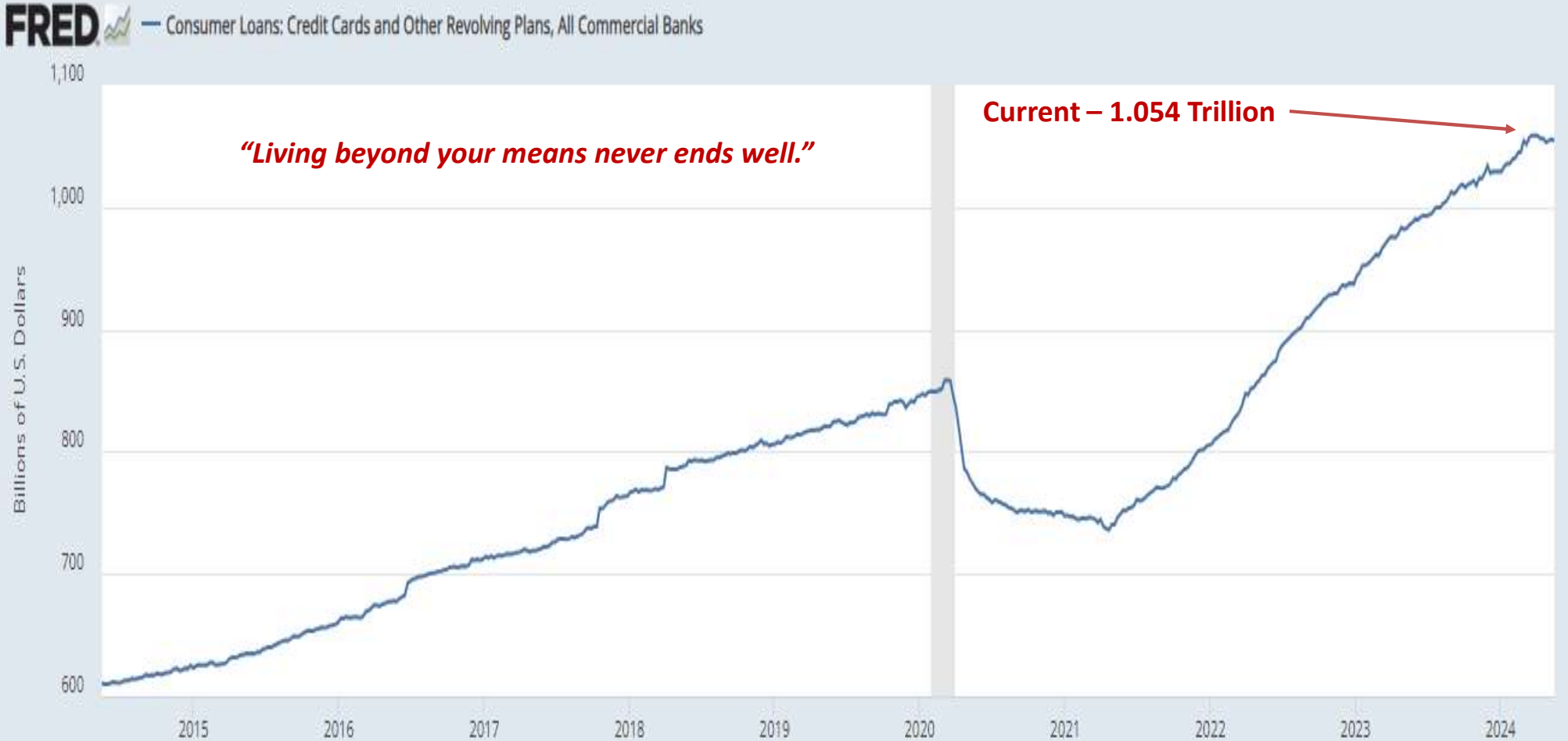
GDP Quarterly Results - As of May 30th



U.S. Retail Sales



Consumer Credit Card Debt – May 24th, 2024

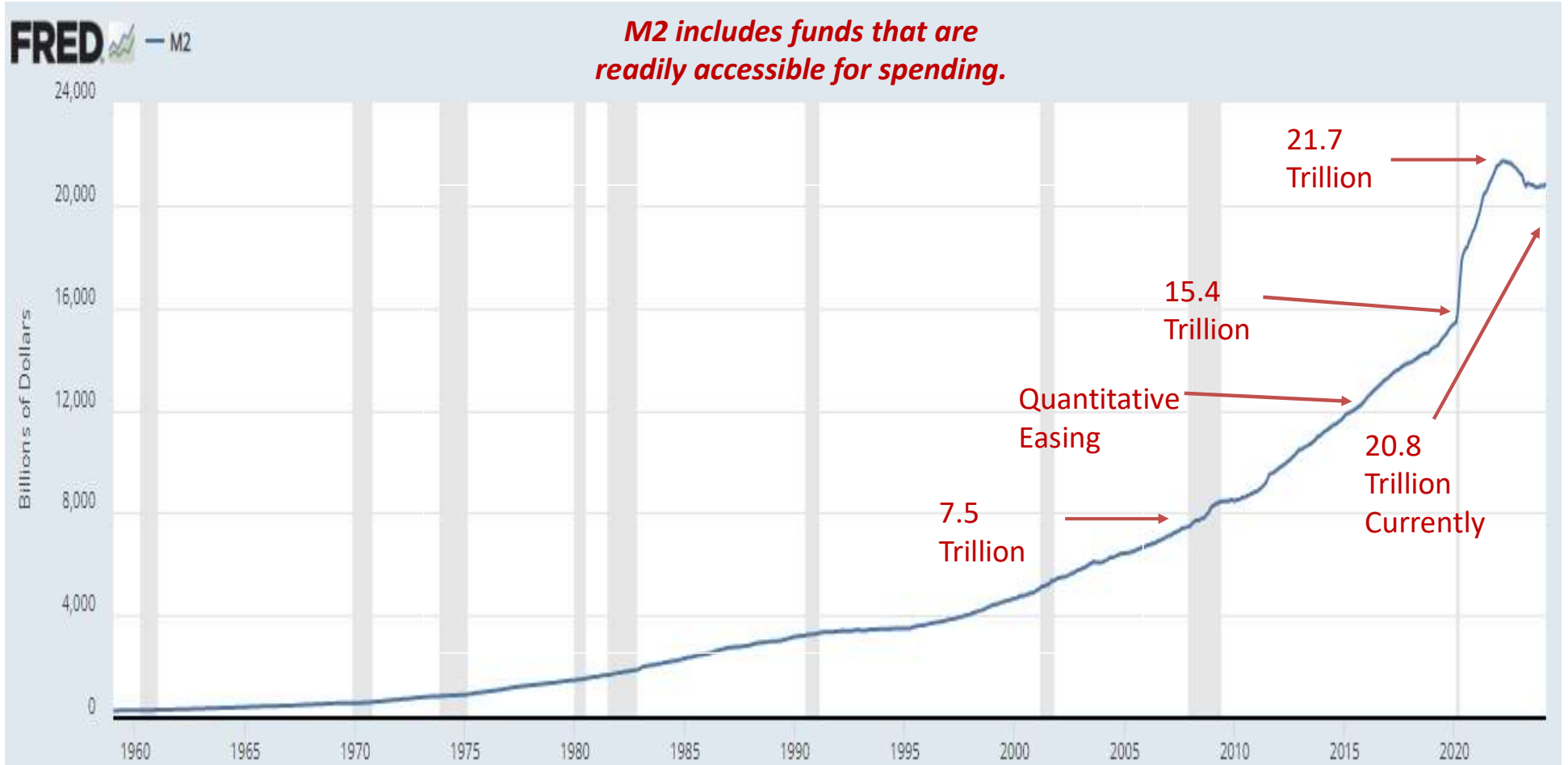


US Consumer Debt Structure

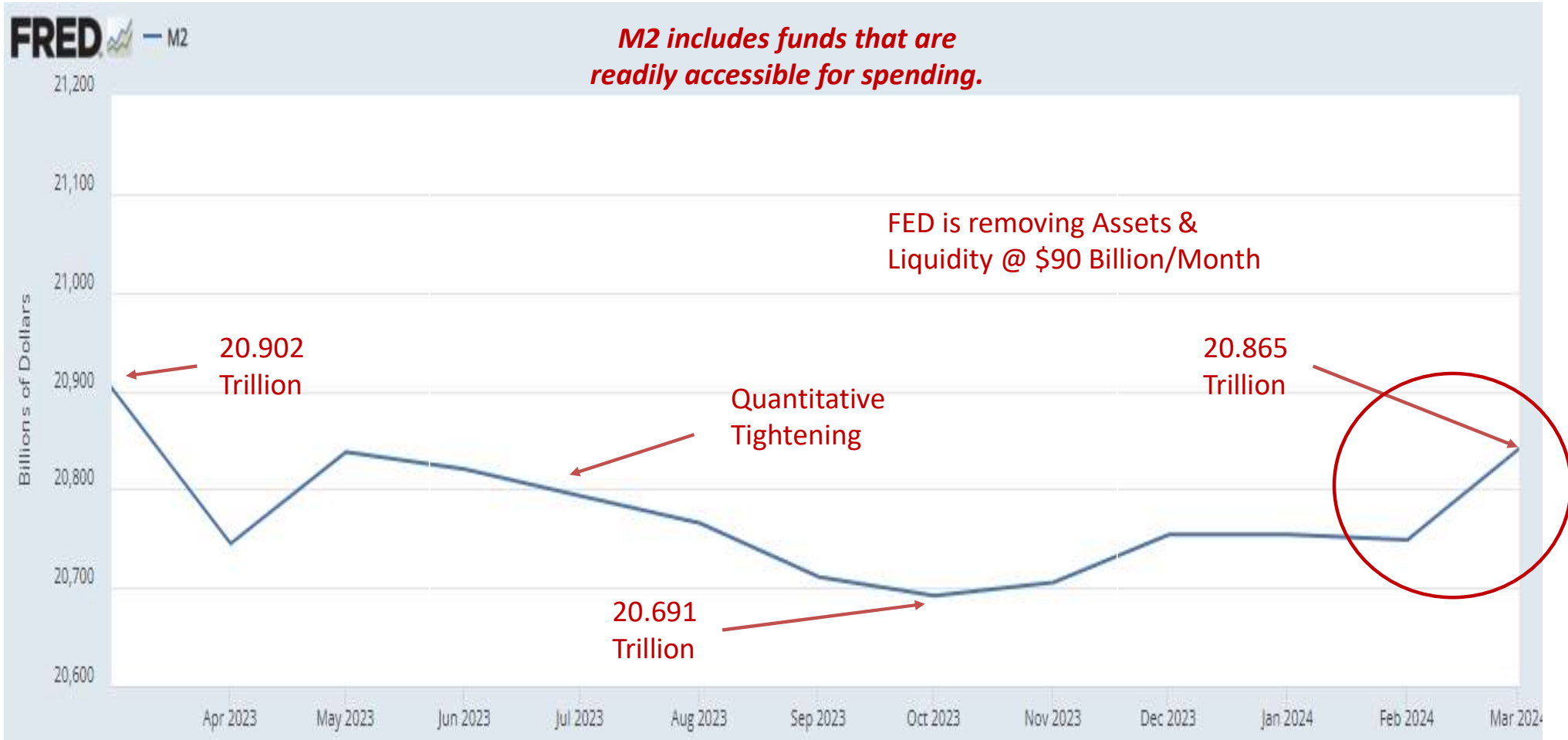
Total Consumer Debt = \$17.5 Trillion

- ***70% of Debt is in Home Mortgages***
- ***9% of Debt is in Auto Loans***
- ***9% of Debt is in Student Loans***
- ***6% of Debt is in Credit Card Balances***

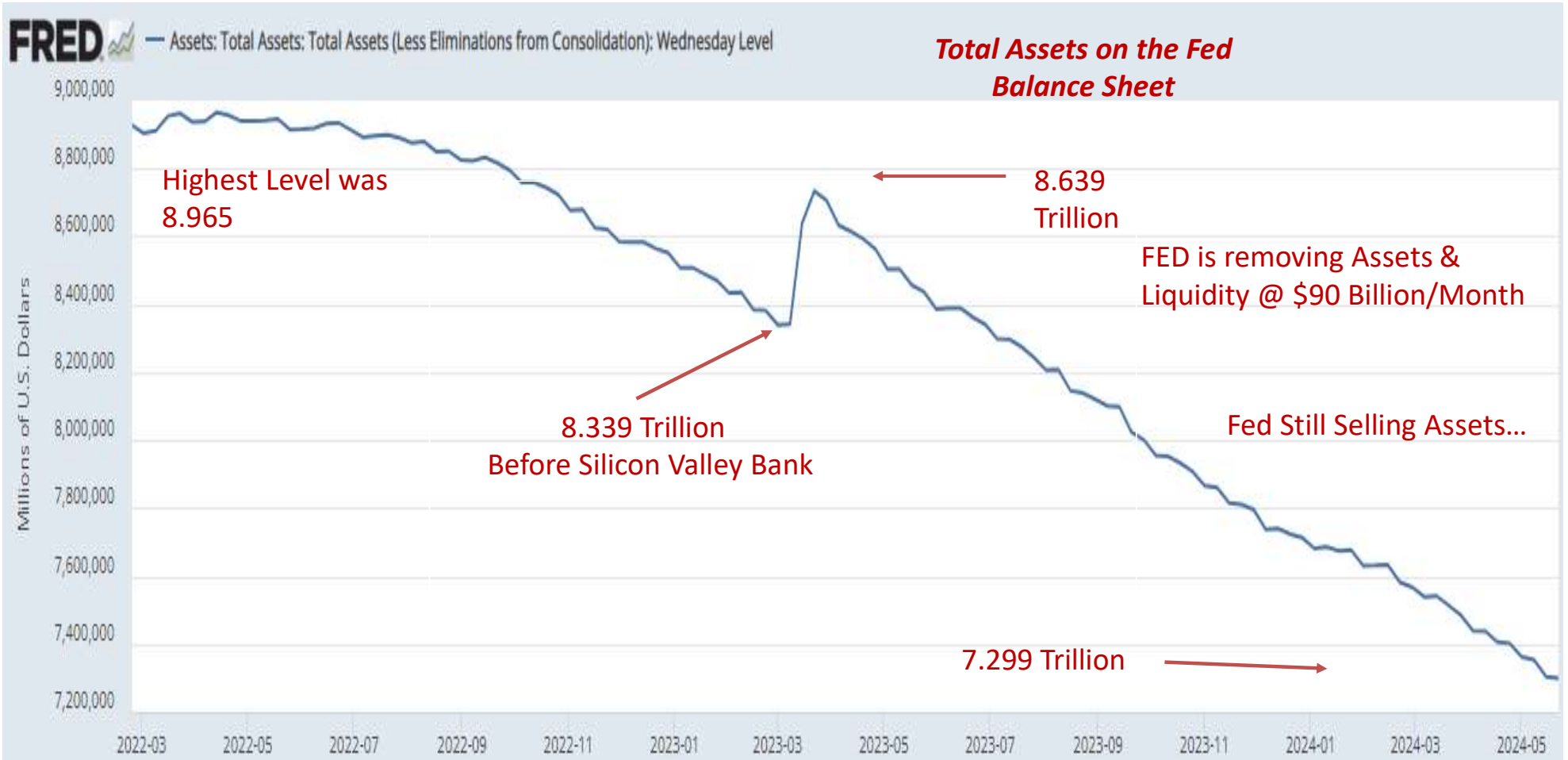
As of April 23rd, 2024 (Current Data)



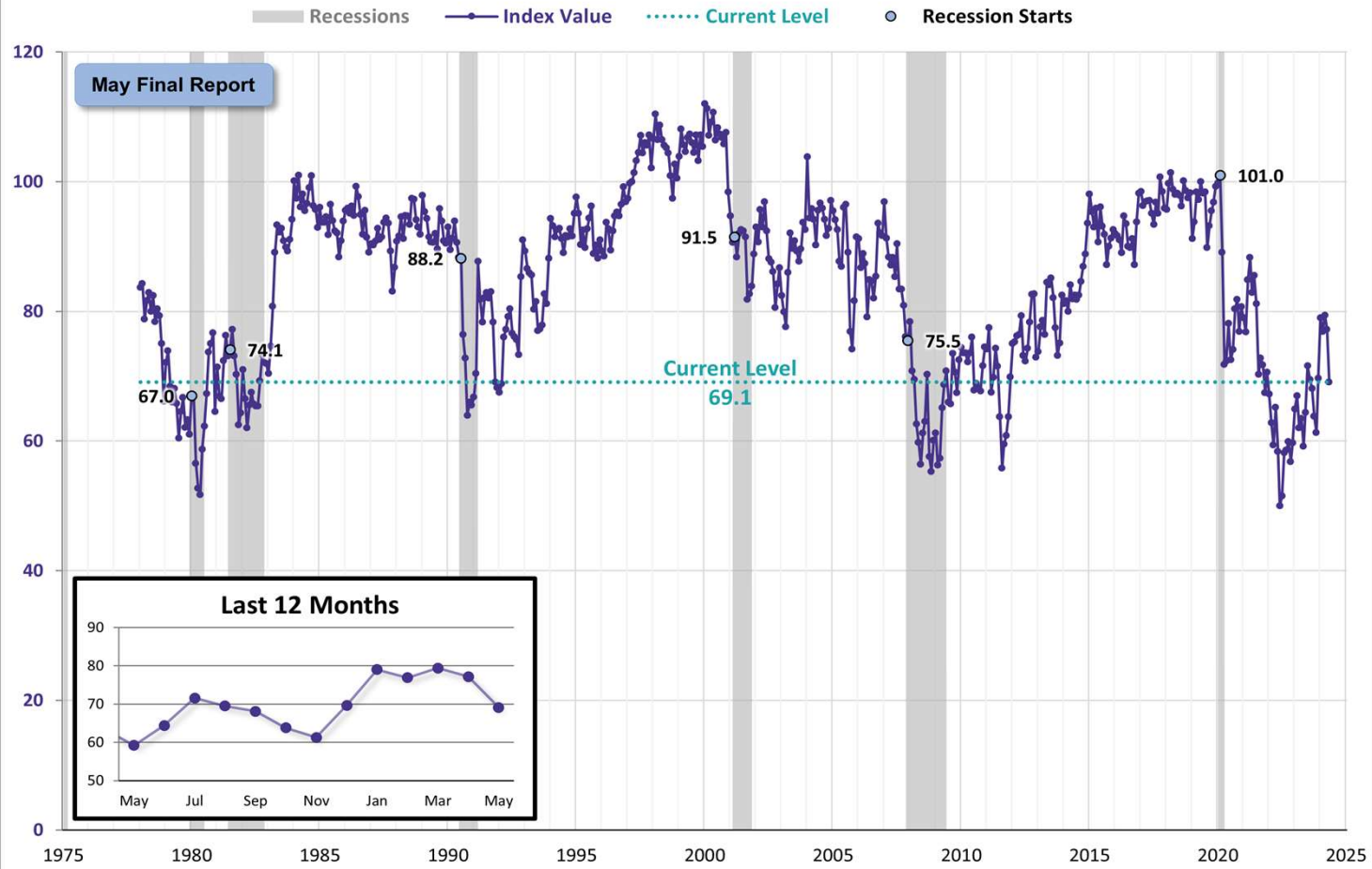
As of April 23rd, 2024 (Current Data)



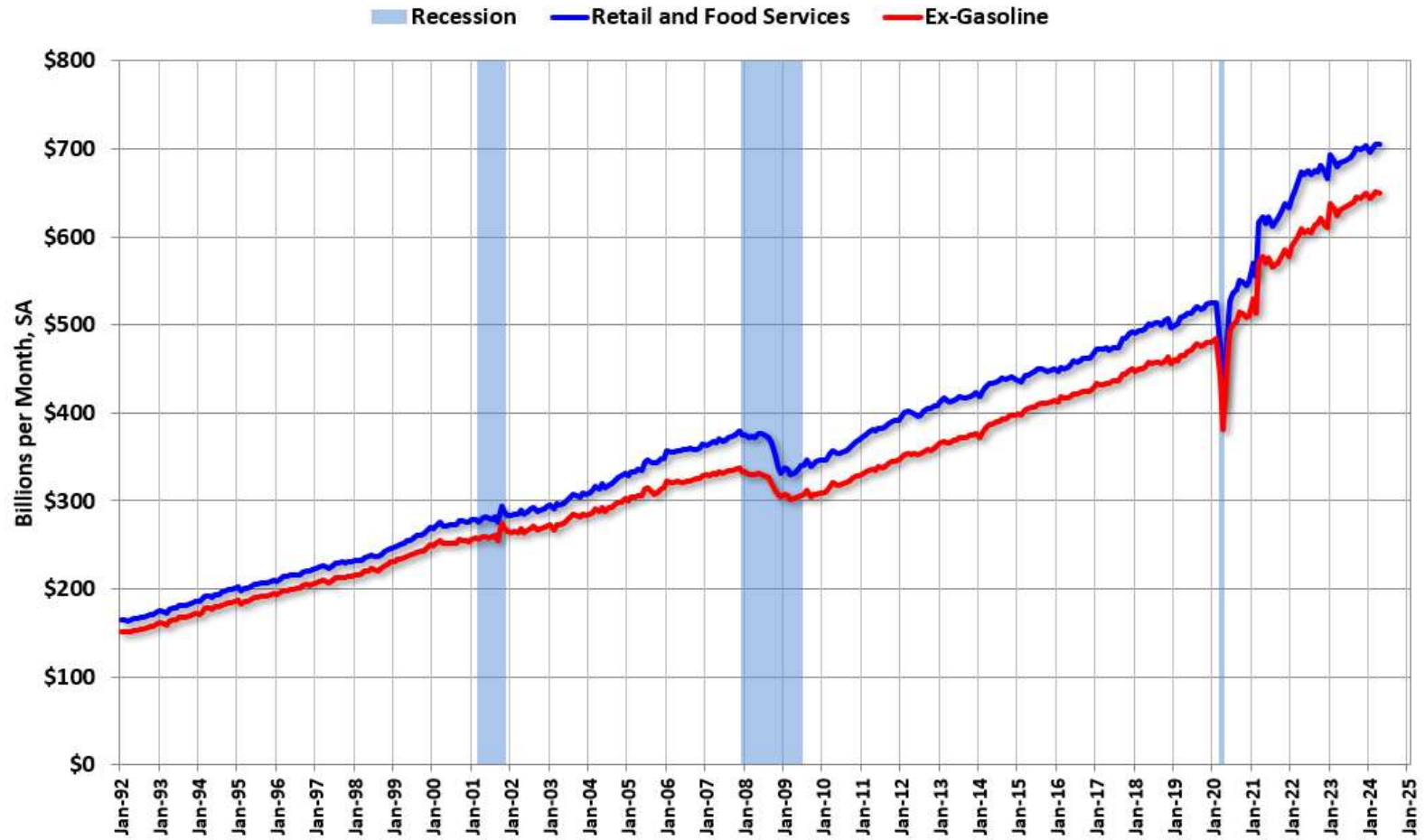
As of May 23rd, 2024 (Current Data)



University of Michigan Consumer Sentiment Index



U.S. Retail Sales



Just a reminder...

Economic Cycle

- *Expansion – Growing GDP*
- *Crisis - A Threat to GDP – Economy Slows Down*
- **Recession – Unemployment Spikes – Negative GDP Growth**
(Recessions are deflationary)
- *Government Response – FED becomes Accommodating*
- *Recovery – Growth Returns*

US Economic Environment

“Current Economic Conditions”

- ***Interest Rates and Inflation Numbers Indicate:***
 - ***Inflation is “Sticky” and Staying Higher than Target***
 - ***FED in “Wait and See” Period Waiting on Data***
 - ***“No Landing” Current Trend but Soft and Hard Still Possible***
 - ***Next 6 Months Critical Time Period for US Economy***

US Economic Environment

“Current Economic Conditions”

- ***Outlook of “Soft” vs “Hard” vs “No” Landing*** ✓
- ***US Employment Numbers –*** ✓
- ***Industrial Production*** ✓
- ***Inflation Indicators – How the FED is doing -*** ✓
- ***The Washington DC Factor – President – House - Senate???***

Once Again



Washington Update

- *US Farm Bill –*
 - *House Bill Passes at the Committee Level*
 - *Members Simi-Optimistic (if other side gives in)*
 - *Professionals Not Optimistic at all*
 - *IMHO – Only a 10% Chance of New Farm Bill in 2024*
 - *Extension with change in Reference Prices Likely*

First Chance of House Farm Bill Vote – In September

If not presented for passage, next available slot after election

Washington Update

- *Election – If held today...*
 - *House would shift to Democrat’s Control (gerrymandering)*
 - *Alabama, Georgia, Louisiana (Racial)*
 - *New York and North Carolina (Partisan)*
 - *Currently Solid Democrat Seats -202* *Current House - 213*
 - *Currently Solid Republican Seats – 210* *Current House - 217*
 - *Current Tossup Elections - 23*
 - *Senate would shift to Republican’s Control (50 Likely Today)*
 - *Tossup States in 2024 Senate Election*
 - *Montana*
 - *Ohio*

Washington Update

Election – If held today...

- *Presidential Election - 270 Electoral College Votes Needed*
 - *44 States are Considered Determined*
 - *Current Electoral College Count – Dem (226) / Rep (235)*
 - *Six States will Decide the Election (77 Electoral Votes)*
 - *Arizona (11)*
 - *Nevada (6)*
 - *Michigan (15)*
 - *Georgia (16)*
 - *Pennsylvania (19) (Road to the White House)*
 - *Wisconsin (10)*

Washington Update

Election – If held today...

- *Presidential Election*
 - *44 States are Considered Determined*
 - *Current Electoral College Count – Dem (226) / Rep (235)*
 - *Six States will Decide the Election (77 Electoral Votes)*
 - *Arizona (11) - Trump*
 - *Nevada (6) - Trump*
 - *Michigan (15) - Trump*
 - *Georgia (16) - Trump*
 - *Pennsylvania (19) (Road to the White House) - Trump*
 - *Wisconsin (10) - Trump*

Washington Update

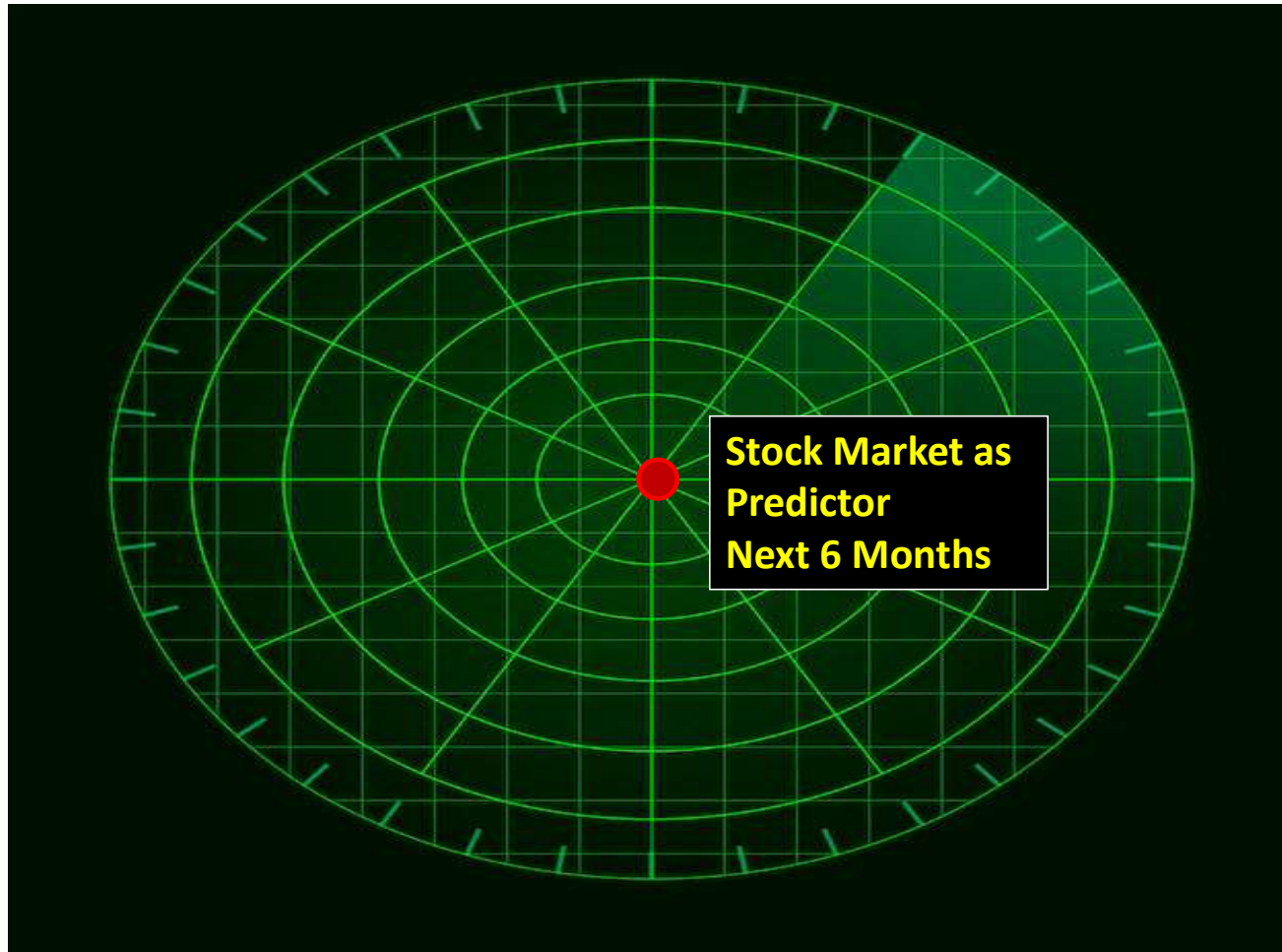
- *Election – (If held today)*

Trump would be Elected (Biden Led Until April)

House Flips - Controlled by Democrats

Senate Flips- Controlled by Republicans

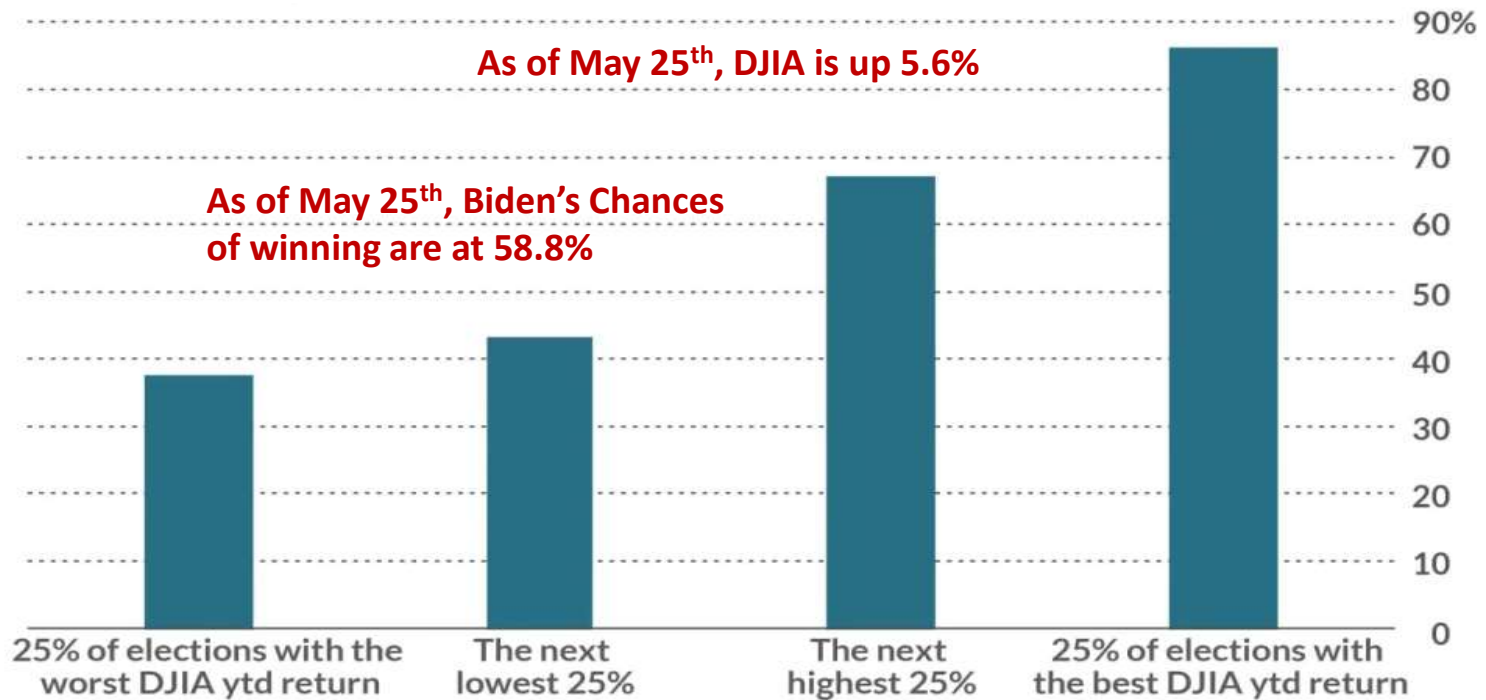
My Radar Screen for the Election in 2024



Washington Update

It's the stock market, stupid!






Odds incumbent party wins Presidency, based on DJIA's year-to-date return on Election Days since 1896



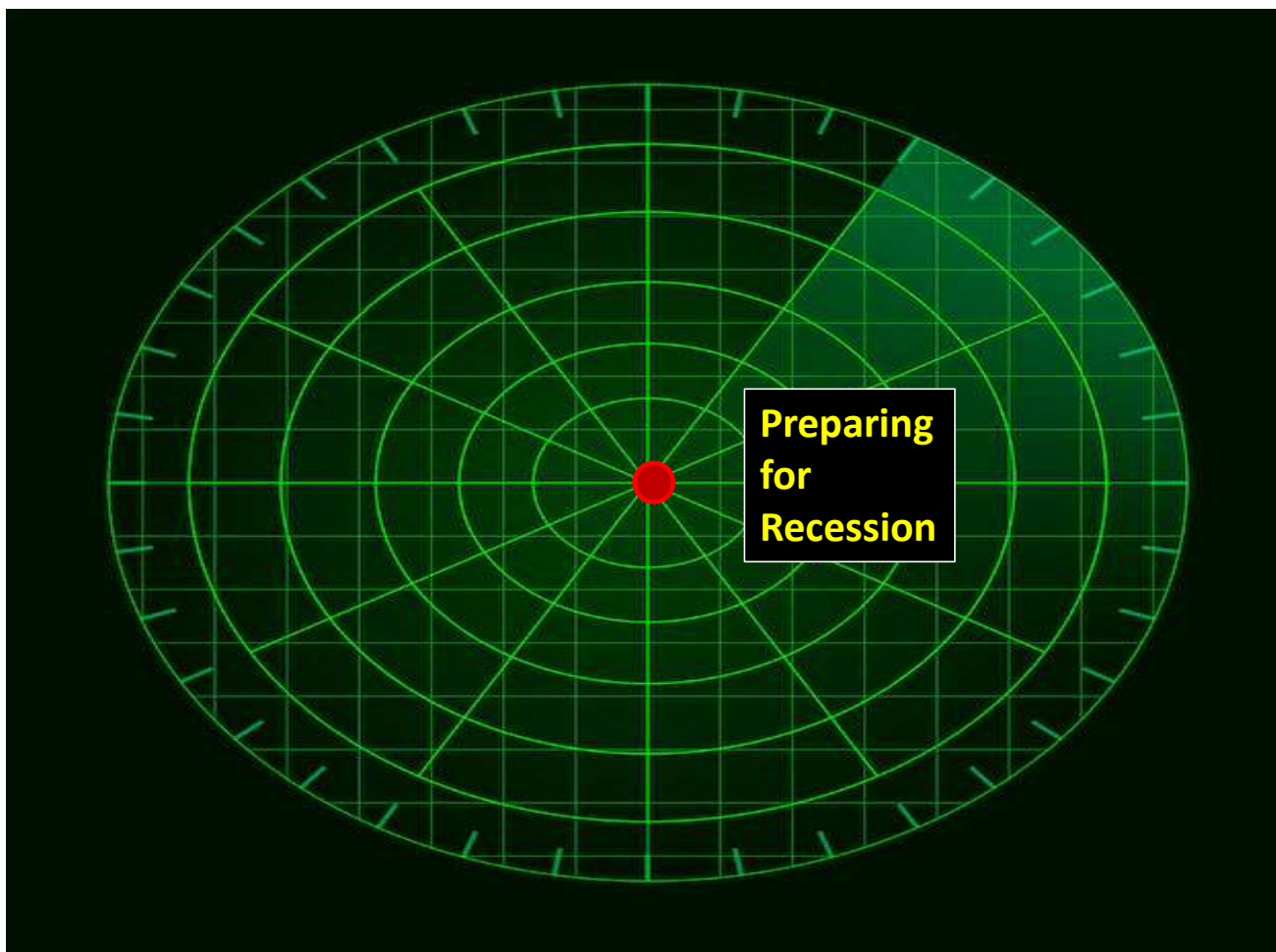
Source: Hulbert Ratings

US Economic Environment

“Current Economic Conditions”

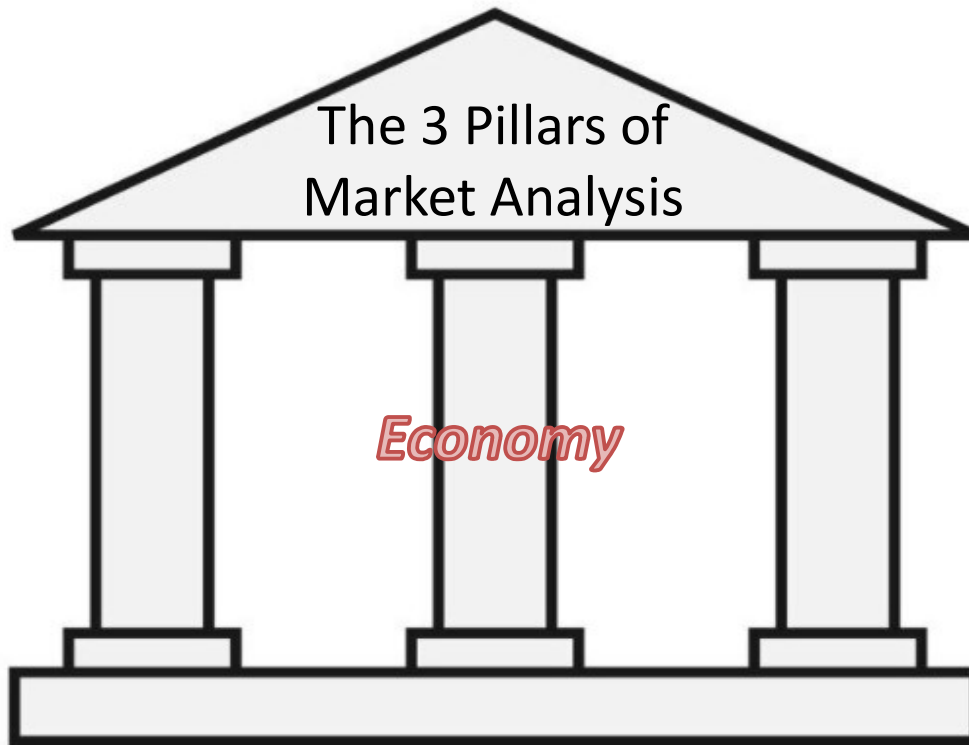
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- ***US Employment Numbers –*** 
- ***Industrial Production*** 
- ***Inflation Indicators – How the FED is doing -*** 
- ***The Washington DC Factor – President – House - Senate???*** 

What's on My Radar Screen in 2024/2025?



What would Signal A Recession is About to Start?

- *Sahm Rule Getting Close to Occurring* (Unemployment)
- *The 10-Yr & 2-Yr Bond Yields Equalizing* (Interest Rates)
- *Retail Sales Slows and Starts Declining* (Consumer)
- *Fed Starts Cutting Rates Aggressively* (Federal Reserve)
- *Banking Loan Availability Declines* (Banking System)



What's Missing on the Rice Industry's Radar in 2024?



Remember ...

*It's What's NOT on your Radar that will
catch you!!*

After all... What could Possibly go wrong??



VANTAGE RM

What Could Possibly Go Wrong...NOW!!!

Dennis DeLaughter
Market Analyst
June 5th, 2024