

Q2
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MWA
MURRAY WISE
ASSOCIATES

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THE WISE AG UPDATE

Your source for farmland & agribusiness transaction news by Murray Wise Associates LLC

COMMENTARY: THE CORONAVIRUS AND FARMLAND

BY MURRAY R WISE

It's been a surreal world for the past few months with the coronavirus impacting our lives in many unexpected ways since the beginning of 2020. While the pandemic has certainly affected us on a personal level, it has also had a large and broad effect on the agricultural industry. Besides the meat industry (see page 2), ethanol has been impacted by 20-year low oil prices and lower prices at the gasoline pump – causing corn growers to get a little nervous and ethanol plants to close. Yet the coronavirus has had a much less dramatic effect on farmland prices.

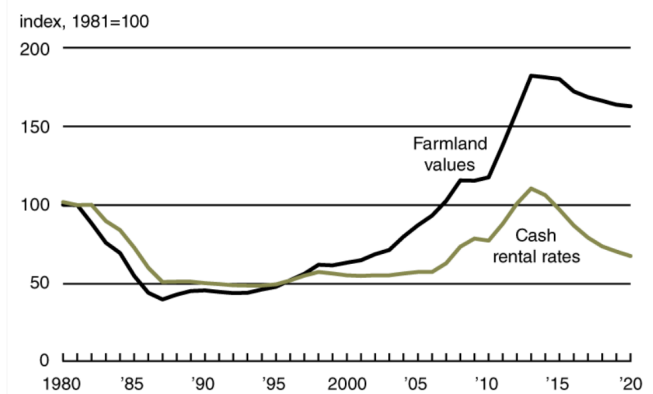
There certainly have been changes; I have seen more private treaty sales in proportion to total sales and a reduction in live auctions with various states "Shelter-in-Place" orders. Considering these orders, more auctions are going online, and I expect that trend to continue to grow. Despite a reduction in auctions and an increase of private treaties, I haven't seen a great change in land market prices.

On the other hand, the volume of land transactions has definitely been down compared to this same period last year, which in combination with historically low interest rates, help to explain the stable land values. And, while we most likely will see cash rents dip slightly this year, compared to bonds and other forms of fixed income as well as equities, farmland should be relatively cheap from a ROI perspective.

Having said that, I do not, however, expect to see a great rally in farmland prices this year. For row crop farmland to realize a substantial price improvement, we first need to see a dramatic bump in the grain market.

Now, with that in mind, here is where I might surprise you. **I am very bullish on farmland long term.**

SEVENTH DISTRICT FARMLAND VALUES



This does not mean I am bullish on commodity prices in the near term. Trade tensions with China do not seem to be improving and may in fact have been exacerbated by the circumstances of the origin of the coronavirus. Also, from what I have seen this month on crop tours, I do not expect there to be a bullish case for grain coming from the supply side. However, long term there is a strong case that can be made for higher commodity prices. This includes not only the growing population, but the growing demand for high quality foods in developing nations. And, most of all, the

Continued on Pg. 2 (COVID)

COVID (CONT. FROM PG. 1)

bullish case for commodities comes from near zero interest rates around the globe and the possibility of increased inflation.

Near term, I do expect farm incomes to take a hit and cash rents to fall this year. But, with current monetary policy and eventual growing demand I see any dip in farmland values as a buying opportunity. Many investors have been flocking to gold recently as an inflationary hedge, however, in contrast with gold, farmland historically has tracked inflation better, offered annual income, and lenders will give you an extremely low interest loan to go buy a farm.

We haven't taken the coronavirus crisis lightly, but I

am looking forward to putting 2020 in my rear view mirror. I expect this to be a tough year for farmers and I expect to see farm incomes hurt and cash rents fall a bit, but I remain optimistic about the future and resiliency of the American farmer and their job to feed the growing population of the world with quality products. And it is with this optimism I leave you. 🌾



Murray R Wise, CEO

Murray is the founder and CEO of Murray Wise Associates.

WHERE'S THE MEAT?

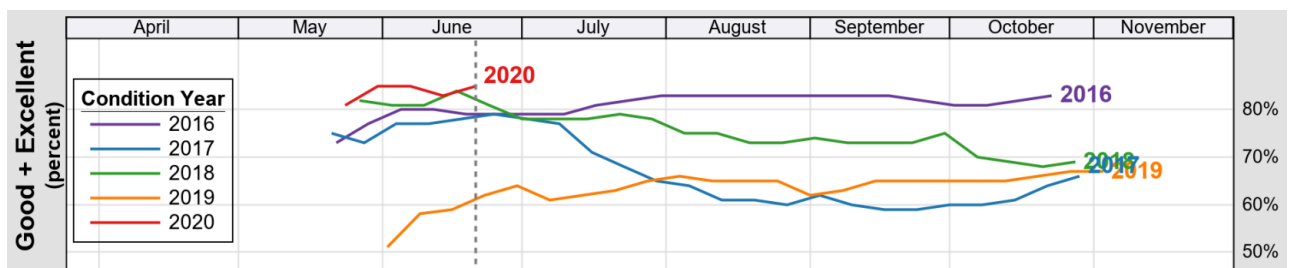
If the very presence of the coronavirus hasn't been enough to challenge our world, the quick changes in the markets makes predicting business directions even more challenging. Hardest hit in the agricultural sector has been the meat packing industry. What we wrote about on May 7 has already changed – see our comments at this link: (<https://murraywiseassociates.com/a-look-at-the-current-meat-shortage/>). The meat packing industry is moving toward pre-coronavirus conditions, but likely will never fully be the same. According to a June 9 CNN piece, Wendy's beef supply has returned to near-normal levels across its system. Wendy's was especially hard-hit because of its reliance on fresh beef compared to its competitors – leaving 18% of its 5500 U.S. restaurants not serving hamburgers.

The coronavirus pandemic has accelerated many changes in consumer buying habits – one of which is consumers staying closer to home and relying more heavily on local resources. As pork producers were faced with euthanizing their pigs because of processing facilities shutting down, they looked to sell their pigs nearby for local meat processing. And local processors saw an increased demand for their services – and not able to actually meet the demand. If you want a cow or hog processed, you may have to wait until 2021 to start taking delivery of meat for your freezer.

MURRAY WISE ASSOCIATES IOWA FARM TOUR RESULTS

Murray Wise Associates farm managers completed their tour of the MWA Iowa farm management portfolio earlier this month and reported that over 90% of the farms were in excellent or good condition. This is in line with the USDA crop condition report for June which has the 2020 crop in Iowa with the highest percentage of "Good + Excellent" ratings of the past 5 years. While it is still early in the growing season, it has to be said that this year is shaping up to be a year that could produce record yields throughout many regions of Iowa. 🌾

USDA CROP CONDITIONS (IOWA)



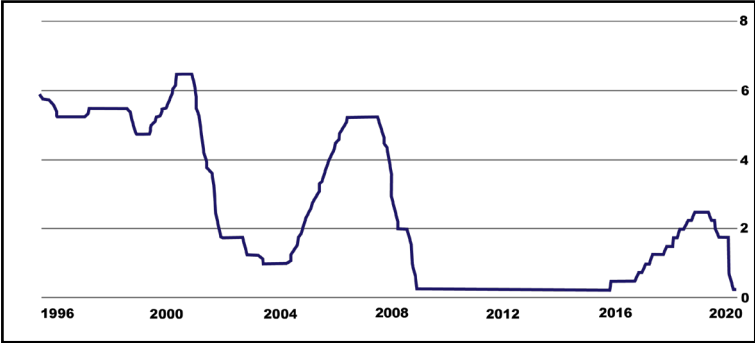
THE NEW NORMAL IN INTEREST RATES

Interest rates have returned to the low levels from the financial crisis and recovery period. While the rates had already been declining last year (farm real estate loans had fallen over one percent from January of 2019 to January of 2020) they plummeted earlier this year with the Federal Reserve dropping the Funds Rate to near zero. While many of our readers have likely been in the process of refinancing their homes, our anecdotal evidence is that many farmland owners are doing the same.

Low interest rates typically bring in the high net worth buyers and institutional funds to the farmland market. With low fixed income returns and equity valuations soaring in comparison to their forward earnings, farmland becomes quite an attractive investment. While rising commodity prices were a factor in the run up of farmland prices over the past 15 years, the low interest rates provided by the Fed had a lot to do with the appreciation of farmland as investors sought annual cash returns.

There has been talk already this year about the possibility of negative interest rates. The chairman of the Federal Reserve, Jerome Powell, came out and said that they were not considering negative interest rates. However, at the current near zero rates and with the exorbitant corporate bond buying program greatly expanding the fed balance sheet, you have to wonder just how much dry powder remains. Yes, negative interest rates are extremely unlikely, but this is a unique time period with unique circumstances. Currently, inflation has remained low even with all of the programs implemented by the Fed, but as they continue to expand their balance sheet and maintain interest rates at these levels, we may start seeing some increases in inflation, if not at the store, perhaps in the value of assets.

FED FUNDS RATE



BAYER SETTLES DICAMBA LAWSUIT

Bayer reached a settlement with plaintiffs in its Roundup, glyphosate, lawsuits and litigation concerning dicamba drift. The company agreed to a total payment of \$10.1 billion to \$10.9 billion. Bayer purchased Monsanto in an all cash deal in 2016 for \$63 billion. If the settlement is approved it should spell the end of the dicamba lawsuits for the company. The lawsuits claimed there is evidence that glyphosate can cause non-Hodgkin's lymphoma and lung cancer in humans.

Washington Cherry Harvest Smaller Than Recent Years

April brought frost to Washington, followed by wind and rain in June that has left cherry growers in Washington with a smaller harvest than recent years. Cherry harvest starts in Washington in early June and goes through August for the northern regions. The wet and windy weather in early June delayed the start of harvest this year, however most of the fruit will still be able to hit the market by the important July 4th weekend. While quantity may be down this year, quality is still looking promising.



THE WISE AG UPDATE

CURRENT LISTINGS & UPCOMING AUCTIONS

Current Listings

Champaign Co., IL - 68 Ac, with a 143.7 PI (Sale Pending)
Macon Co., IL - 76 Ac, with a 135.6 PI
Winnebago Co., IL - 154± Acres with a 122.2 PI
Wright Co. IA - 155 Ac, with a 79.40 CSR2

Upcoming Auctions

McDonough Co., IL - 166± Acres, Coming this Fall

Visit MWAAuctions.com or call (800) 607-6888 for details.

Recent Transactions

Howard Co., IN - 165 Ac, \$8,500/Acre
Champaign Co., IL - 208± Acres \$9,667/Acre
Shelby Co., IL - 218± - \$10,750/Acre
Shelby Co., IL - 80 Ac, \$10,500/Acre
Wright Co., IA - 80 Ac, \$10,500/Acre
Wright Co., IA - 112 Ac, \$8,140/Acre

MWA FOUNDATION SCHOLARSHIPS

As this newsletter is being prepared, the 2020 Murray Wise Associates Scholarship winners are being notified of their awards. The MWA Foundation provides scholarships annually to selected students, who have submitted impressive applications that are then voted on by the Foundation Board provided they remain in good academic standing in an agriculturally related field of study, these scholarships are annually renewable. This year, the Foundation received more than 180 applicants. Sixty percent of the applications were submitted by graduating high school seniors, with the balance coming from undergraduate college students. Applicants from over 30 states applied and represented students from nearly 100 colleges and universities across the country. The diverse range of majors represented in the applicant pool -- from agribusiness to ag education, from ag engineering to agronomy, from animal sciences to ag policy, and beyond -- show the breadth of topics about which the next generation of agriculturalists are passionate. These bright young people have demonstrated scholarship, community involvement and a commitment to agriculture. They are exactly the sort of future leaders the MWA Foundation was established to assist. If you are interested or are aware of a student who may qualify for this scholarship in the future, email info@mwallc.com to be notified when applications for the 2021 awards become available in January.

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