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## “Brexit” and the U.S. Ag Economy

Great Britain’s vote in late June to exit the European Union (EU) – the infamous and somewhat unexpected “Brexit” – threw global financial markets into turmoil and shocked political leadership throughout Europe. It was felt in the U.S., too, where the Dow Industrial Average plummeted nearly 900 points in just two days and the value of the dollar shot up against both the pound and the euro. The U.S. stock market has since recovered, but the pound and euro haven’t.

The immediate upshot for American businesses is that Britain will no longer participate in the EU’s trade pacts. What the vote will ultimately mean to the European power structure and issues such as military alliances, migration and trade – including agriculture – is far from certain.

*OUTLOOK* recently spoke with Dan Glickman, U.S. secretary of agriculture from March 1995 until January 2001, to better understand Brexit’s potential fallout, especially on America’s food producers and exporters. Contrary to some other viewpoints, Glickman believes the vote is not catastrophic. A strong proponent of free trade and global trade agreements, he views the Brexit decision as a reflection of a populist economic anxiety that extends into the U.S.

***OUTLOOK: What do you think is going to be the ultimate effect of Brexit on agriculture in the United States?***

**Dan Glickman:** Brexit will certainly not be a help to U.S. agriculture. By weakening the euro, it exacerbates the already difficult situation created by a strong dollar. U.S.-produced agricultural products will be that much more expensive in Europe, which will negatively impact our ag exports.

That said, I don’t think the impact will be material on any of the commodities markets – whether it’s livestock, grains, cotton, rice or other markets. Instability in the export markets is usually not good, but by and large other factors will probably be more significant for U.S. producers and food companies. Weather, demographics and other market forces will continue to have a more significant influence.

**This Month's Expert**



Dan Glickman served as U.S. Secretary of Agriculture under former President Bill Clinton from March 1995 until January

2001. Today, he is a senior fellow at the Washington, D.C.-based Bipartisan Policy Center and co-chairs its Commission on Political Reform, Democracy Project, and Prevention Initiative. Glickman is also the executive director of the Aspen Institute Congressional Program, a nongovernmental, nonpartisan educational program for members of the United States Congress.

Previously, Glickman was chairman of the Motion Picture Association of America, Inc. (MPAA), which serves as the voice and advocate of the U.S. motion picture, home video, and television industries. Prior to joining the MPAA, Glickman was the director of the Institute of Politics at Harvard University's John F. Kennedy School of Government. He also served as a partner and senior advisor to the law firm of Akin Gump Strauss Hauer & Feld in Washington, D.C.

Prior to becoming the secretary of agriculture, Glickman represented the 4th Congressional District of Kansas for 18 years in the House of Representatives. During that time, he was a member of the House Agriculture Committee, including six years as chairman of the subcommittee with jurisdiction over federal farm policy issues.

The fact that the stock market has already bounced back from Brexit is an indicator that nothing catastrophic is in the offing for either the commodities markets or the securities markets. While Europe is a huge market for us – both in agriculture and non agriculture – I would view it as slightly bearish in terms of impact, but not catastrophic.

***OUTLOOK: Is it going to hurt our exports of agricultural products to Britain?***

**DG:** The U.S. is not a huge exporter of agricultural commodities to Britain. Most of what we send to the U.K. is processed food and food products. Ironically, Britain gets most of their ag commodities from the EU and other places. In that sense, by making Britain's relationship with the rest of Europe more complicated, the Brexit could conceivably have a positive long-term effect on American ag exports to Britain.

***OUTLOOK: How will Brexit affect the ag industry's relationship with the remainder of the EU?***

**DG:** The biggest issue with Brexit is not agriculture specifically; it is the relationship between the pound, the dollar and the euro. If the euro and pound end up being weakened permanently, a strong dollar will have a somewhat negative effect on almost all ag exports. But it is way too early to make a judgment on that.

As an export market for the U.S., the EU has a complicated and fairly restrictive regulatory regime for agriculture. This is going to take a couple years to work itself out on the EU level, and it's difficult to know exactly what the effect will be. Frankly, much of it could depend on Germany, which is the Big Kahuna, so to speak, when it comes to the European economy. As long as we maintain a good relationship with Germany, I don't think that it's going to have any dramatic impact.

***OUTLOOK: What effect do you think the vote is going to have on the pending negotiations for the Transatlantic Trade and Investment Partnership (TTIP) agreement with the EU?***

**DG:** Brexit certainly isn't a positive development. I would view TTIP as on hold until after the election. Congress isn't terribly interested in a trade agreement with Europe right now. And both candidates for President – particularly Donald Trump and to a lesser extent Hillary Clinton – have been much more bearish on trade agreements than certainly President Obama, or Presidents Bush or Clinton were. I'm also not looking for the Trans-Pacific Partnership – our pending agreement with 11 other countries in North America, South America and Asia, plus Australia – to be ratified before the election.

## U.S. AGRICULTURAL PRODUCT EXPORTS TO THE EU

In Millions of U.S. Dollars

PRODUCT	2015
Tree Nuts	\$2,977
Soybeans	\$1,878
Distilled Spirits	\$770
Wine and Beer	\$685
Planting Seeds	\$420
Soybean Meal	\$394
Processed Fruit	\$328
Beef and Beef Products	\$306
Feeds and Fodder	\$298

Source: USDA Foreign Agricultural Service

My hope is that the lame-duck period after the election will give us a period of time for both agreements to move forward. These agreements are important to the country, and very important to agriculture longer-term. Right now, however, the mood in Europe, and to some extent the mood in the United States, is much more nationalistic, much less favorable towards globalization.

**OUTLOOK: How important is it to American farmers that the EU continue to operate as a currency union, even without the U.K. as a member?**

**DG:** If the EU were to break up and go back to the way it was, it would certainly be a problem for agriculture, and our ability to export products. It would make it much more difficult for American farmers.

I don't expect that to happen, to be honest with you. But that's going to be a real challenge for the next President – to assert the interest of the United States in maintaining this entity, the EU, which has been very helpful in maintaining peace and security in that part of the world.

**OUTLOOK: Do you worry about exit sentiment in other EU countries?**

**DG:** The French have a much stronger right wing than most of the other European countries, and there has been some talk there about leaving the EU. Because of its colonial history, France has many immigrants from North Africa, and the freedom of movement in continental Europe has ignited some strong anti-immigrant feelings there. They've had a lot of instability and, of course, some tragedy coming from recent terrorist attacks.

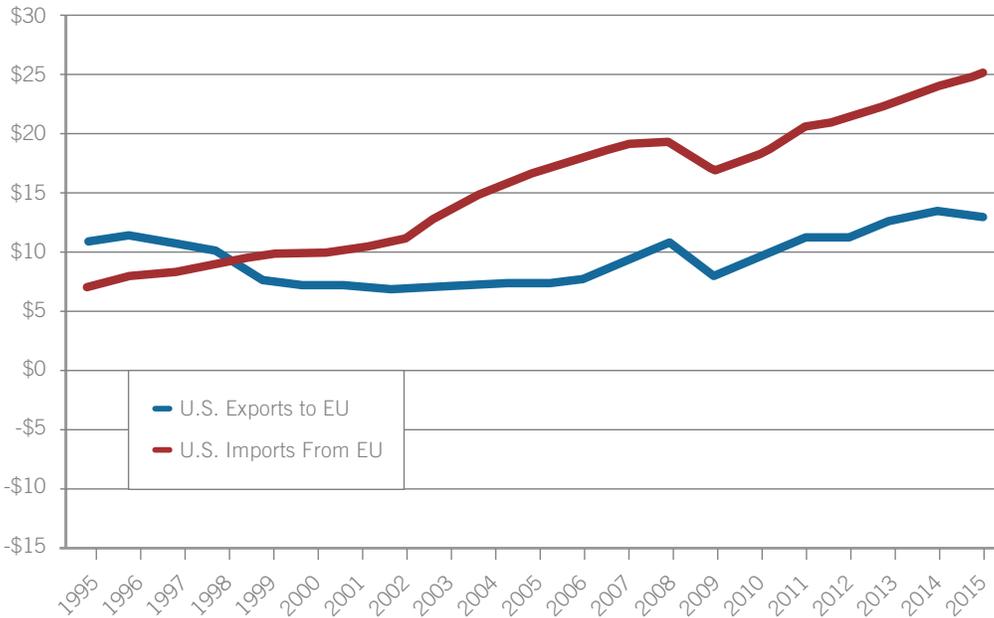
An EU without France would dramatically weaken the European Union, even with a strong Germany. France is also a major agriculture factor – much more so than the U.K. Withdrawal of France could impact us significantly, if it were to happen.

**OUTLOOK: What are the benefits and drawbacks to the U.K. of its exit from the EU?**

**DG:** Certainly, the British will be paying a lot less money to the EU in the form of taxes. They will also free themselves from the EU's strict regulatory regime, which they were required to follow in many different areas even though they maintained their own currency. EU taxes and the regulatory regime were two of the primary reasons the "leave" vote won.

## U.S. AGRICULTURAL TRADE WITH THE EU

In Billions of U.S. Dollars



Source: USDA Foreign Agricultural Service

The “leave” advocates also believe that having stricter controls on immigration will be a benefit of leaving the EU. Britain has had a fair amount of immigration from Southern and Eastern Europe because they were part of the EU economic unit.

On the other hand, Britain’s exports will be threatened. They export some grains and specialty crops into Europe, as well as beef and sheep. Their military alliances, such as NATO, will be impacted, too. Even though the United States is probably Britain’s largest ally, their role in NATO is clearly jeopardized by this decision.

The biggest impact, in fact, is likely to be geopolitical. Britain spends more on its defense per capita than most of the other European countries. They are our strongest ally in the NATO alliance. That’s where there’s probably more uncertainty, even more than in agriculture.

### **OUTLOOK: What does the future hold for the U.K.’s trading relationships?**

**DG:** The U.K. will likely have to negotiate individual agreements with the EU and its member countries, or maybe a few of them will band together. Clearly, the German and the French relationships are critical to the U.K. from a trade perspective, but so are the Scandinavian countries, Poland and the Southern European countries, which provide their fruit.

The issue is that we don’t know exactly what the vote means in terms of cause and effect. The British people clearly wanted a political separation, but did they want a total separation that extends to agriculture? We don’t know. If Britain wasn’t able to buy commodities at reasonable prices anymore, that would certainly have an impact and prompt the creation of agreements probably with the EU and U.S., as well.

### **OUTLOOK: Let’s talk about the political landscape in which all this happened. The Brexit vote took a lot of people by surprise. How did it get to this point?**

**DG:** Part of it is that we’ve reached a point where people have become very suspicious of big institutions, big government, big business. The EU, in some people’s minds, has become this bureaucratic behemoth, setting rules for otherwise sovereign countries.

Food is a global commodity. Without trade agreements, and without open markets, a lot of countries are going to become much worse off from the perspective of food production.

The question is whether the EU will get this message, and maybe reduce its impact on the ability of these countries to set their own rules. The worst thing that could happen right now is that if the EU completely broke up, disbanded the euro, and the nations went back to their respective national currencies. Britain never joined the euro, so it has less of an impact on Britain.

***OUTLOOK: What impact if any will the Brexit vote have on the U.S. election?***

**DG:** I'm not sure Brexit will have a direct impact on the U.S. election. Nonetheless, the vote reflects a broader feeling of isolationism, nationalism, and economic anxiety that can be seen almost everywhere in the world, including here in the U.S.

For example, much of the appeal that Donald Trump has right now is with people who have had economically based anxiety, have lost their jobs and blame it all on trade. The truth, however, is that trade is not the cause of most job losses. Technological change has a lot more to do with it. We can produce more with less, and we're no longer as much of a manufacturing power as we once were. But Trump's resonance is, to some extent, the same kind of feelings we saw among those who voted for Brexit.

Hillary Clinton has also pulled back from trade, and her support for the Trans-Pacific Partnership has waned. She was pushed by Bernie Sanders, to some extent, to do that. But I think that after the election, the rhetoric will die down no matter who wins, and we'll start to become more sensible and balanced in terms of trade issues.

My strong belief is that we cannot live in an isolationist world. We're all inextricably linked together with other countries in the world. We have the same environment – the same air, same water. Food is a global commodity. Without trade agreements, and without open markets, a lot of countries are going to become much worse off from the perspective of food production.

We don't want to go back to the way things were in the 18th and 19th centuries. I hope that good sense prevails, but it's going to take until after the election to do that. ■

*Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.*

# Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 6/30/16. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

## KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

## HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

## FORWARD FIXED RATES

### Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	5	5	5	5
90	5	9	9	9
180	5	13	14	14
365	12	28	26	27

Costs are stated in basis points per year.

## ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

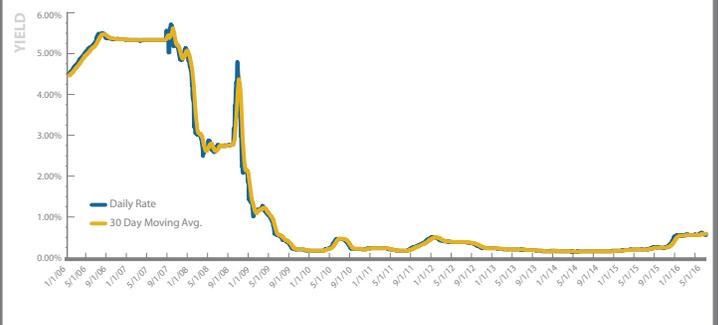
### US Treasury Securities

2016	GDP	CPI	Funds	2-year	10-year
Q3	2.30%	2.40%	0.38%	0.75%	1.68%
Q4	2.40%	2.20%	0.39%	0.96%	1.87%
2017	GDP	CPI	Funds	2-year	10-year
Q1	2.20%	2.20%	0.42%	1.12%	2.03%
Q2	2.30%	2.40%	0.44%	1.28%	2.16%
Q3	2.20%	2.30%	0.46%	1.50%	2.34%

## SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

## 3-MONTH LIBOR



## PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

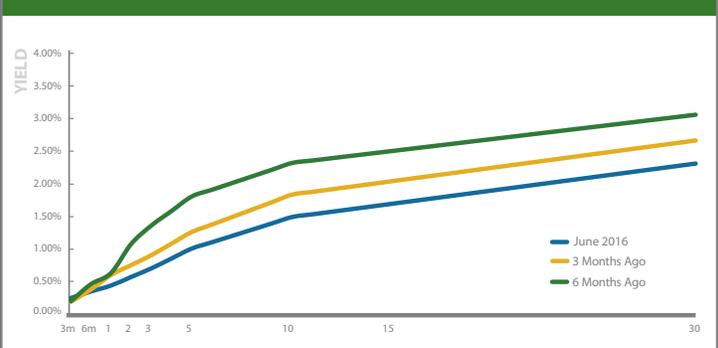
## IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.67%	0.69%	0.83%	0.99%	1.15%	1.35%
0.25	0.66%	0.70%	0.86%	1.02%	1.18%	1.37%
0.50	0.69%	0.73%	0.90%	1.06%	1.23%	1.40%
0.75	0.73%	0.79%	0.94%	1.11%	1.27%	1.45%
1.00	0.77%	0.82%	0.97%	1.14%	1.29%	1.47%
1.50	0.84%	0.90%	1.06%	1.24%	1.38%	1.55%
2.00	0.90%	0.96%	1.09%	1.27%	1.45%	1.59%
2.50	0.98%	1.04%	1.20%	1.37%	1.51%	1.66%
3.00	1.06%	1.13%	1.31%	1.48%	1.57%	1.73%
4.00	1.24%	1.32%	1.49%	1.60%	1.70%	1.80%
5.00	1.43%	1.51%	1.61%	1.74%	1.80%	1.88%

## RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

## TREASURY YIELD CURVE





### About CoBank

CoBank is a \$118 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at [www.cobank.com](http://www.cobank.com).

## Political Leaders Salute Farm Credit on Its Centennial

This summer, CoBank and its Farm Credit partners joined together in Washington, D.C., to recognize the 100th anniversary of the Farm Credit System and to celebrate a century of providing reliable, consistent credit to agriculture and rural communities across America. The Farm Credit System dates back to July 17, 1916, when President Woodrow Wilson signed the Federal Farm Loan Act. Political leaders from Congress to the president all stood up to salute the FCS on its centennial.



*Bob Engel*

In June, CoBank CEO Bob Engel moderated a panel on rural infrastructure in collaboration with Rep. Austin Scott (R-Georgia) and Rep. David Scott (D-Georgia). The discussion covered the critical need among rural communities and agriculture for clean water, efficient energy, sufficient healthcare facilities and modern telecommunications services. “Every American owes a debt of gratitude to the 15 percent of people that call rural America home for the high quality of life in our country,” Engel said. “Farm Credit has been, and will continue to be, a stabilizing force and beacon of hope for this great American asset called rural America.”

Then in July, Sen. Pat Roberts (R-Kansas) and Sen. Debbie Stabenow (D-Michigan), chairman and ranking member, respectively, of the Senate Agriculture Committee, hosted a panel on the Future of Agriculture. The discussion featured young and beginning farmers who talked about services, opportunities and programs that help their businesses, and provided a general outlook for young and beginning producers.

Another important part of the centennial celebration was the Farm Credit 100 Fresh Perspectives Honoree Luncheon, the culmination of a national search for 100 leaders across America who are working to change the face and the future of agriculture and rural communities. Both Secretary of Agriculture Tom Vilsack and Representative Frank Lucas (R-Oklahoma), former Chairman of the House Ag Committee, delivered keynote remarks.

“The rural communities and the farm community trusts Farm Credit to be there in the good times, but more importantly, in the tough times,” said Secretary Vilsack. “Over the course of the last 100 years, that trust has been cemented.”

President Barack Obama also paid homage to what the Farm Credit System has achieved. “By providing loans and financial services to farmers and communities through its network of cooperatives, the FCS plays an integral role in local economies across the United States,” Obama said. “I commend everyone working to ensure America’s farmers, ranchers and rural communities have the resources and information they need to thrive, and I wish all those celebrating this historic occasion the very best.”

Said Todd Van Hoose, President and CEO of the Farm Credit Council, of the anniversary: “We are grateful for the strong support for Farm Credit’s mission from President Obama, Secretary Vilsack, and congressional leaders and look forward to another 100 years of supporting rural communities and agriculture.” ■