Open Markets, Economic Growth and Shared Prosperity

“The Luckiest Generation”

Al Ambrose
Vice President, Risk Management
Oilseed Processing
CHS

22nd Annual Outlook Symposium
Federal Reserve Bank of Chicago
Chicago, IL
December 5, 2008
A Remarkable Sequence of Events Leads Global Transformation

- **Circa 1947 -** UK PM Atlee (Fabian Socialist) nationalized banks, coal, steel, roads, rails, aviation, electricity, telegraph. Created NHS (National Health Service) and welfare system.

- **1979 - 1990** Margaret Thatcher as U.K. Prime Minister privatizes 2/3 U.K. state-run industries, deregulates, cuts taxes (basic rate of 33% to 25%, top wage rate of 98% cut to 40%)

- **1980 - 1988**- Ronald Reagan as U.S. President cuts taxes (top tax of 78% cut to 35% [was 91% in 1961], promotes deregulation, S.D.I.

- **U.S./U.K. economies lead global economic recovery (S&P 500 & U.K. FTSE triple ’82 -’87)**
**Remarkable Sequence... continued**

- **1983/84** - Deng Xiaoping introduces “market socialism”, de-collectivizes state-run farms, promotes *individual property rights* through long-term land leases.

- **Nov ’89 Berlin Wall falls, Cold War ends, global shift from “guns to butter”**

- **1992/93 Uruguay Round (GATT) ends, global industrial trade reform**

- **1994** - “NAFTA”

- **Widespread “sustainable prosperity”**
A Formula for Prosperity

- **Rule of Law (ordered liberty)**
- **Property rights (i.e. limited taxation)**
- **Capitalism (individual opportunity)**
- **Competition (creative destruction)**
- **Trade (comparative advantage)**
- **Sensible immigration policy**
- **Democracy? In America, capitalism predated democracy by hundreds of years**
All price charts as of C.O.B. November 28, 2008

14-fold expansion over 18 years

1,553 (Mar’00)
107 (Jul’82)
Keynesian economic theory dominated public policy: 1945-1980

(onerous taxation, central planning, government regulation and programs, socialism, collectivism...)

Laski, Marx, Keynes, Atlee, Nehru, Galbraith, P. Samuelson, Krugman

“The State is wiser than the individual...”

386 (1929)  570 (1974)
Monetarist (“Chicago School”) approach replaced Keynesian policies circa 1981…
(tax-reform, privatization, deregulation, free enterprise, capitalism, individualism…)

Adam Smith, Von Misses, Hayek, Friedman, Reagan, Thatcher, Greenspan, Laffer, Kemp, Bernanke

“Individuals and markets allocate resources better than governments…”
Dow Jones Industrial Index - Quarterly - 108 years

15-fold expansion over 18 years...

*Note: This is a rhetorical question, not a forecast!

Post-9/11 high: 14,198 (10/11/07)
Post-9/11 low: 7,198 (10/10/02)*
Leadership, Ideas, Policy Choices Matter…

- **1957 - 1981**
  - 300 months
  - 40 in recession
  - 13% of period

- **1982 - 2007**
  - 300 months
  - 8 in recession
  - 2.7% of period

Source: Recessions by Geoffrey H Moore
The Concise Encyclopedia of Economics
Library of Economics and Liberty
LEADERSHIP
U.S. Household Net Worth (trillion dollars)

- 1950: 1.0
- 1960: 1.8
- 1970: 3.4
- 1980: 9.4
- 1990: 20.2
- 2000: 42.0
- 2007 (Q3): 58.7
- 2008 (Q2): 56.0

*Expanded 6-fold in 27 years!*

*Up 33% since 2000*

*56 trillion seconds is 1.78 million years…*

Source: U.S. Federal Reserve Statistical Release
Flow of Funds Accounts – Sept 18, 2008
All this growth despite...

- U.S./global equity market collapse’00-02
- 9/11/01
- Enron, WorldCom, Tyco, etc.
- Three-year global economic slump
- Afghanistan and Iraq wars
- SARS, BSE, Avian flu
- Global war on terror
- 17 Fed funds rate hikes (6/04 - 6/06)
- Katrina/ Rita
- Real-estate “bubble”
- $100+ crude oil
- Sub-Prime loan debacle
Greenspan’s conundrum...

Liquidity

Productivity growth, massive wealth creation, Asian savings rate, equity-risk aversion, “housing bubble”, “Boomer” safe haven,
# U.S. Life Expectancy at Birth (years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Female</th>
<th>Male</th>
<th>Both Sexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>48.3</td>
<td>46.3</td>
<td>47.3</td>
</tr>
<tr>
<td>1935*</td>
<td>63.9</td>
<td>59.9</td>
<td>61.7</td>
</tr>
<tr>
<td>1970</td>
<td>74.7</td>
<td>67.1</td>
<td>70.8</td>
</tr>
<tr>
<td>2000</td>
<td>79.7</td>
<td>74.3</td>
<td>77.0</td>
</tr>
<tr>
<td>2006</td>
<td>80.7</td>
<td>75.4</td>
<td>78.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comparison</th>
<th>Female</th>
<th>Male</th>
<th>Both Sexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 v 1900</td>
<td>+67%</td>
<td>+63%</td>
<td>+65%</td>
</tr>
<tr>
<td>2006 v 1935</td>
<td>+26%</td>
<td>+26%</td>
<td>+26%</td>
</tr>
</tbody>
</table>

*Source: National Center for Health Statistics*  
*June 2008*

*Social Security Act signed*
The Farm Sector
US Net Farm Income
(Billions of Dollars)

Uruguay, NAFTA, CAFTA-DR
not helpful to US farmers?

'91-'00 $46.1B Avg.

01-'08 $69.7B Avg.

$81.1B Avg.

$100B+?

Source: USDA – Oct 2008
US Average Farm vs. Non-Farm Household Income (Percentage)

Source: USDA – Oct 2008
US Farm Sector Debt to Equity Ratio (Percentage)

Source: USDA – Oct 2008
Average Farm Equity
(Thousands of Dollars)

Source: USDA – Oct 2008
Food Supply
Soy Consumption and Global Prosperity

- As the very poor advance economically, they move from grains to vegetable oils to meat.
- Per capita vegetable oil consumption in the poorest countries is used by IMF as measure of changing living standards.
- Very poor people do not purchase meat.
- In many developing countries, massive job creation and rapidly advancing incomes spur improved dietary intake.
- The result? An unprecedented expansion of vegetable oil and protein consumption.
World Soybean Production 1995-2008
(Million Metric Tons)

Total production up 112 MMT (90%) in 11 years
China usage grew 28 MMT (25%)
Soybean Harvest - Mato Grosso, Brazil

Soybean harvest followed by planting of double crop corn (31 combines & 12 planters)

Yesterday: A Threat…

Today: A Necessity…

Yesterday: A Threat…
Malaysian, Indonesian, Other World Palm Oil Production
(Million Metric Tons)

Eight-fold in 28 years!

Average: Up 2.4 MMT past 10 years
(11 million soybean acres)

Source: USDA FAS – Nov 2008
### World Vegetable Oil Production (9)
(Million Metric Tons)

<table>
<thead>
<tr>
<th></th>
<th>80/81</th>
<th>08/09</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm</td>
<td>4.9</td>
<td>43.2</td>
<td>+782%</td>
</tr>
<tr>
<td>Soybean</td>
<td>9.8</td>
<td>37.8</td>
<td>+286%</td>
</tr>
<tr>
<td>Rape</td>
<td>3.9</td>
<td>19.4</td>
<td>+398%</td>
</tr>
<tr>
<td>Sun Seed</td>
<td>4.6</td>
<td>11.7</td>
<td>+154%</td>
</tr>
<tr>
<td>Groundnut</td>
<td>2.3</td>
<td>4.9</td>
<td>+113%</td>
</tr>
<tr>
<td>Cotton</td>
<td>2.9</td>
<td>5.0</td>
<td>+72%</td>
</tr>
<tr>
<td>Palm Kernel</td>
<td>0.5</td>
<td>5.1</td>
<td>+920%</td>
</tr>
<tr>
<td>Olive</td>
<td>1.9</td>
<td>3.0</td>
<td>+58%</td>
</tr>
<tr>
<td>Coconut</td>
<td>2.8</td>
<td>3.6</td>
<td>+29%</td>
</tr>
<tr>
<td>Total</td>
<td>33.6</td>
<td>133.7</td>
<td>+298%</td>
</tr>
</tbody>
</table>

World production quadruples in 28 years! (5.9X)

(World Population + 50.5% same period)

Source: USDA FAS – Nov 2008
World Production vs. Year-end Stocks-to-Use Ratios
(Combined Palm oil, Rape oil, Soy oil, Sun oil)

*This prior to recent bio-fuels phenomenon…

Source: USDA FAS – Nov 2008
Strong Economic Growth, Especially In Developing Countries, Stimulates Demand For Both Food And Fuel

Foreign households with real PPP incomes greater than $20,000 a year (in millions of households)

Source: Global Insight's Global Consumer Markets data as analyzed by OGA/FAS/USDA
Soybean Oil Futures - Quarterly - 40 years

01 Oct 08 4407
H= 4488
L= 2984
C= 3259
MAx1(Sim, 40)= 2529.17
CH1.1= 1611.628
CH1.2= 5674.884

.7126

.2529

.5100
World Corn Ending Stocks, Consumption and Stocks to Use %
(Million Metric Tons)

800 MMT*
36 year low

Source: USDA & Citi

Nov 2008

YEAR BEGINNING ON JUNE 01

Ending Stocks  Total Consumption  STU %
Corn Futures - Quarterly - 40 years

$5.545

$7.65

$2.74

$5.545
Major producing country corn yields: Huge untapped potential

U.S. corn yields

10-year Trend Projection

40-year Baseline Projection

2008 – 2016 data from USDA Agricultural Baseline Projections; 10-year trend analysis from FAS
Herbicide, Insecticide, Fertilizer Use in U.S Corn Production

Herbicide and insecticide use

Fertilizer use

Source: USDA/NASS, Agricultural Chemical Usage Report

Source: USDA/ERS

Prepared by OGA/FAS/USDA July 2008
World Wheat Ending Stocks, Consumption and Stocks to Use %
(Million Metric Tons)

655 MMT*
Rebounding from
40+ year low

Source: USDA & Citi
Nov 2008

YEAR BEGINNING ON JUNE 01

Ending Stocks
Total Consumption
STU %
World Rice Ending Stocks, Consumption and Stocks to Use %
(Million Metric Tons)

429 MMT*

Stable at 30 year low

37%

19%

Source: USDA & Citi
Nov 2008
World Barley Ending Stocks, Consumption and Stocks to Use %
(Million Metric Tons)

144 MMT  Big recovery from 24 year low

Source: USDA & Citi
Nov 2008
China - Rural versus Urban Population

(1978)
82% R - 790m

(2002) +24
61% R - 782m

(2011) +9
50% R - 690m

Total 1.38B

“To get rich is glorious!”
Deng Xiaopeng (1984)*

39% U - 502m
Total 1.28B

18% U - 172m
Total 963m

Percent

Urban
Rural
Chinese Soybean Oil Consumption (Million Metric Tons)

48-fold expansion over 25 years...

Source: USDA – Nov 2008
Chinese Soybean Meal Consumption (Million Metric Tons)

- 3000% increase 1990 to 2008
- 16% population growth same period
- Protein consumption grew
  - 188x population past 18 years

Source: USDA – Nov 2008
Chinese Soybean Meal Consumption
(Million Metric Tons)

“Supply-side economics”

Says law: “supply creates its own demand”

Source: USDA – Nov 2008
Trade-generated prosperity is **not** a zero-sum game!
Chinese Soybean Imports (MMT)

Rose 235-fold over 13 years…

*(10 year average gain 3.4 MMT)

Source: USDA – Nov 2008
Chinese Vegetable Oil Imports (Million Metric Tons)

Record palm oil imports
9 years running…

Soy oil imports avg.
2.2 MMT past 7 years…

Source: USDA – Nov 2008
Vegetable Oil Disappearance

Socialistic Democracy? (KG P/ C) Capitalistic Autocracy?

U.S. 38, Canada 26.3, EU-25 27.8, Japan 17.2

China, Cuba, FSU-12, India, North Korea, Mexico

Source: FAS – Feb 2007

*Trade Sanctions Reform Export Enhancement Act of 2000
Obesity in China Doubled in 11 Years With Rising Prosperity

By Cristina Alesci
July 8 (Bloomberg) --
Capitalism versus Socialism

“A government big enough to give you everything you want, is strong enough to take everything you have.”

Thomas Jefferson

“The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery.”

Winston Churchill
The Unmistakable Trend…

An Interdependent World

Twelve Selected Equity Markets
1996-2008
U.S. Standard & Poor’s 500 - Monthly

Mar’00

Oct’07

Mar’03
Prosperity is not a zero-sum game!
As of 11/29/08: 733
Down 94%
### 16 Selected Equity Markets

<table>
<thead>
<tr>
<th>Symbol</th>
<th>C.O.B.</th>
<th>Post 9/11 Low</th>
<th>2007 High</th>
<th>Gain</th>
<th>Current</th>
<th>Current % Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>S &amp; P 500</td>
<td>769</td>
<td>1,576</td>
<td>105%</td>
<td>896</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Dow Jones Industrials</td>
<td>7,198</td>
<td>14,198</td>
<td>97%</td>
<td>8,829</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>DJ Canada</td>
<td>1,843</td>
<td>5,019</td>
<td>172%</td>
<td>3,052</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>DJ Mexico</td>
<td>3,719</td>
<td>22,355</td>
<td>501%</td>
<td>13,730</td>
<td>269%</td>
<td></td>
</tr>
<tr>
<td>NIKKEI 225</td>
<td>7,650</td>
<td>18,350</td>
<td>140%</td>
<td>8,515</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>FTSE 100 London</td>
<td>3,278</td>
<td>6,754</td>
<td>106%</td>
<td>4,288</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>DAX 30 Frankfurt</td>
<td>2,189</td>
<td>8,152</td>
<td>272%</td>
<td>4,669</td>
<td>113%</td>
<td></td>
</tr>
<tr>
<td>CAC 40 Paris</td>
<td>2,401</td>
<td>6,168</td>
<td>157%</td>
<td>3,263</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>SNG - Singapore</td>
<td>895</td>
<td>3,126</td>
<td>249%</td>
<td>1,334</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>DJ Taiwan</td>
<td>871</td>
<td>2,448</td>
<td>181%</td>
<td>1,074</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>DJ South Korea</td>
<td>829</td>
<td>4,374</td>
<td>428%</td>
<td>2,279</td>
<td>175%</td>
<td></td>
</tr>
<tr>
<td>DJ K Hong Kong</td>
<td>1,378</td>
<td>5,992</td>
<td>335%</td>
<td>2,335</td>
<td>69%</td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>2,752</td>
<td>8,209</td>
<td>229%</td>
<td>4,522</td>
<td>73%</td>
<td></td>
</tr>
</tbody>
</table>

| Symbol                          |        |               |           |       |         |                |
| BRAZIL BOVESPA                  | 8,420  | 74,500        | 785%      | 37,500| 345%    |
| RUSSIA MICEX                    | 131    | 1,970         | 1404%     | 611   | 366%    |
| INDIA SENSEX                    | 2,595  | 21,207        | 717%      | 9,093 | 250%    |
| CHINA SHANGHAI                  | 110    | 588           | 435%      | 196   | 78%     |
| **Average**                     | 2,814  | 24,566        | 835%      | 11,850| 260%    |
# World & Selected Countries (2007 Data)
## GDP, GDP and Rank, Population

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross Domestic Product</th>
<th>2005-07 3yr GDP Growth Avg.</th>
<th>World Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rank</td>
<td>$Trillion</td>
<td>%</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td>54.3</td>
<td>3.6</td>
</tr>
<tr>
<td>US</td>
<td>1</td>
<td>13.8</td>
<td>25.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>4.4</td>
<td>8.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>3.3</td>
<td>6.1%</td>
</tr>
<tr>
<td>China</td>
<td>4</td>
<td>3.3</td>
<td>6.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5</td>
<td>2.7</td>
<td>5.0%</td>
</tr>
<tr>
<td>France</td>
<td>6</td>
<td>2.6</td>
<td>4.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>7</td>
<td>2.1</td>
<td>3.9%</td>
</tr>
<tr>
<td>Spain</td>
<td>8</td>
<td>1.4</td>
<td>2.6%</td>
</tr>
<tr>
<td>Canada</td>
<td>9</td>
<td>1.3</td>
<td>2.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>10</td>
<td>1.3</td>
<td>2.4%</td>
</tr>
<tr>
<td>Top 10</td>
<td></td>
<td>36.2</td>
<td>66.7%</td>
</tr>
<tr>
<td>Russia</td>
<td>11</td>
<td>1.30</td>
<td>2.4%</td>
</tr>
<tr>
<td>India</td>
<td>12</td>
<td>1.2</td>
<td>2.2%</td>
</tr>
<tr>
<td>South Korea</td>
<td>13</td>
<td>0.97</td>
<td>1.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>14</td>
<td>0.89</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

* Euro Zone Average

### Global Electoral Democracies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total countries</th>
<th>Free</th>
<th>Partly Free</th>
<th>Pct. F/P.F.</th>
<th>Not Free</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>158</td>
<td>40</td>
<td>53</td>
<td>59%</td>
<td>65</td>
</tr>
<tr>
<td>1981</td>
<td>164</td>
<td>54</td>
<td>46</td>
<td>61%</td>
<td>64</td>
</tr>
<tr>
<td>1985</td>
<td>167</td>
<td>56</td>
<td>56</td>
<td>67%</td>
<td>55</td>
</tr>
<tr>
<td>1995</td>
<td>191</td>
<td>76</td>
<td>62</td>
<td>72%</td>
<td>53</td>
</tr>
<tr>
<td>2005</td>
<td>193</td>
<td>90</td>
<td>58</td>
<td>77%</td>
<td>45</td>
</tr>
</tbody>
</table>

| Change | +125% | +9% | +31% | -31% |

In 2002, the GDP of Free countries stood at $26.8 trillion, while the GDP of Not Free countries was $1.7 trillion.

*Not free because prosperous; rather, prosperous because free.*

Source: Freedom House 2007
The Next Great Opportunity?

Global Agricultural Trade Reform

Global industrial tariffs average: 4% (20%)

Global agricultural tariffs average: 40%

Support Global Agricultural Trade Reform!
The Outlook...

- The pervasive spread of economic freedom, free enterprise, and optimism trumps terrorism
- The forward march of global prosperity hangs in the balance
- Food-demand growth rates still advancing?
- Free-market principles, progressive policies, and the indomitable human spirit still required if the advance of the human condition to continue
- Caveats... rising protectionism, isolationism, and overt nationalism pose greater threats to broadening prosperity than terrorism
- Excessive taxation, litigation, and regulation inhibit growth
“...Once you begin a great movement, there's no telling where it will end. We meant to change a nation, and instead, we changed a world.”

President Ronald Reagan
Farewell Address to the Nation
Oval Office - January 11, 1989
World Night Picture

Energy, Activity, Warmth, Prosperity, Hope...

Truth...

Count Your Blessings!
Open Markets, Economic Growth and Shared Prosperity

“The Luckiest Generation”

Thank you!

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