

# AG FORECAST CALLS FOR SUN

Like the temperature, economic activity on the rise

Topeka received 1.12 inches of precipitation in January 2015. This May, we saw 9.43. The lesson here? Just because things slow down in the winter, doesn't mean they don't pick right back up in the spring. The economy may be taking its cue from the skies. The FOMC recently confirmed markets were down during the colder months, but they expect economic activity as well as the labor market to heat up in the coming quarters.

your  
**AGRICULTURE  
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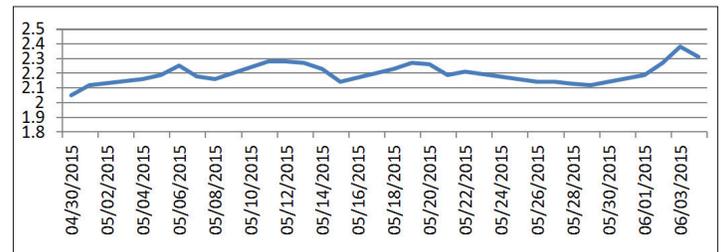
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We have seen evidence of economic growth and activity in many areas, which may be leading to increases in longer term Treasury yields. So far this year, the 10-year Treasury has increased from a low of 1.88% to a high of 2.38% based on a generally positive economic outlook.

Despite the rate increases on the long end of the curve, the potential for short-term rates to remain low into 2016 is still pretty good. Although the FOMC continues to signal a

## Current 10Y Treasury Activity

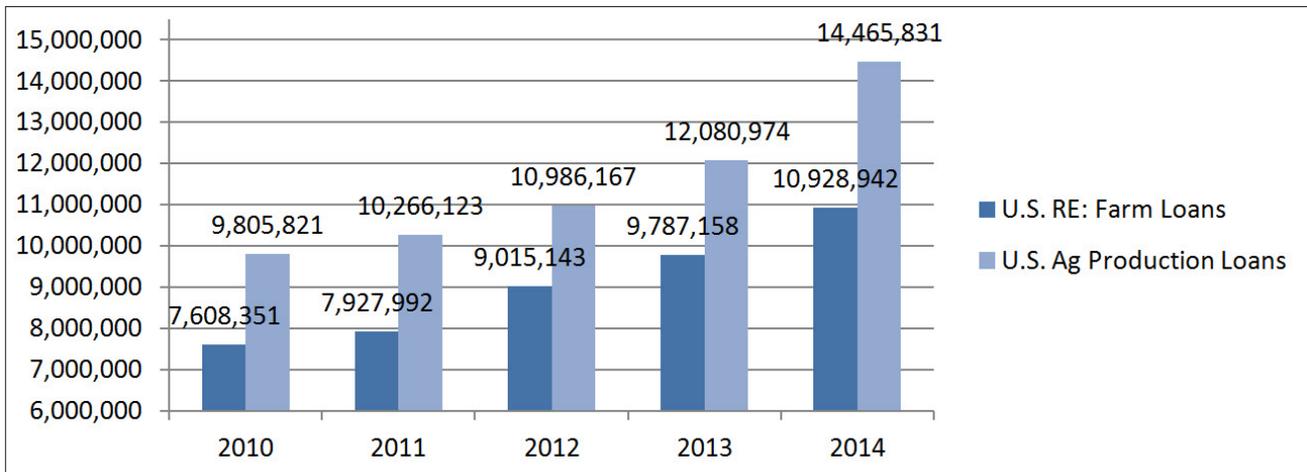


rate increase in the near future, Chair Janet Yellen commented in a press release in March that the Committee anticipates "it will be appropriate to raise the target range for the federal

funds rate when it has seen further improvement in the labor market and it's reasonably confident that inflation will move back to its 2% objective

*continued on back*

## Five Year Ag Loan Growth



over the medium term.”

The FOMC has maintained this viewpoint for two months as the policy objectives are still yet to be accomplished.

The agricultural cycles continue to take place regardless of what is going on in the broader economy, and the past several years of operational expansion has led to good opportunities in farming and livestock.

These opportunities have led to good demand for ag loans with solid growth in farmland and ag operating loans in our four state region as illustrated in the graph above

As bankers, we work to understand how the economy is impacting our customers and strive to help our ag borrowers with solutions to their funding needs.

With the current pressure on short-term needs being created by rising input costs coupled with lower commodity prices, many borrowers

“People are starting to discover this is a pretty good industry to be in. They realize that this sector isn’t our traditional what we joke ‘cow, plow and sows’ industry anymore. It’s incredibly diverse.”

### MIKE GAUL

*Career Services Director for Iowa State College of Agricultural and Life Sciences*

will need to draw additional funds on their operating lines. While these same borrowers may be concerned with the possibility of rising rates, the borrowing cost on the short-end of the yield curve continues to be very low.

One option to consider when funding your operating lines is the flexibility

provided by FHLBank’s regular callable adjustable advances. You receive the benefit of low-costing short-term funding, which is effectively zero considering the Class B stock dividend yield.

Also, the free call option provides you the ability to prepay the advance on any rate reset date based on operating line pay downs. Not to mention the positive impact on your liquidity ratio associated with long-term RACs as the contractual advance term can be longer than other short-term funding options.

The weather, economy and the agricultural industry are ever changing and uncertain. However, current indicators and rates would support staying fairly short and taking advantage of lower funding costs and borrowing rates. An adjustable-rate callable advance provides a number of advantages with short-term rates on a long-term scale.

**Contact me if you would like to discuss this strategy and more.**

## Contact Tony today for solutions that work for you.

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