February 2020

Reed's Review

Reed Burres

***Quick* Preview:**

- ✓ Wetter than Average Spring Expected
- ✓ *Fats, Feeders, & Hogs*
- ✓ Livestock Risk Protection Insurance
- ✓ South American Harvest
- ✓ Reed's Recommendation
- ✓ The Takeaway

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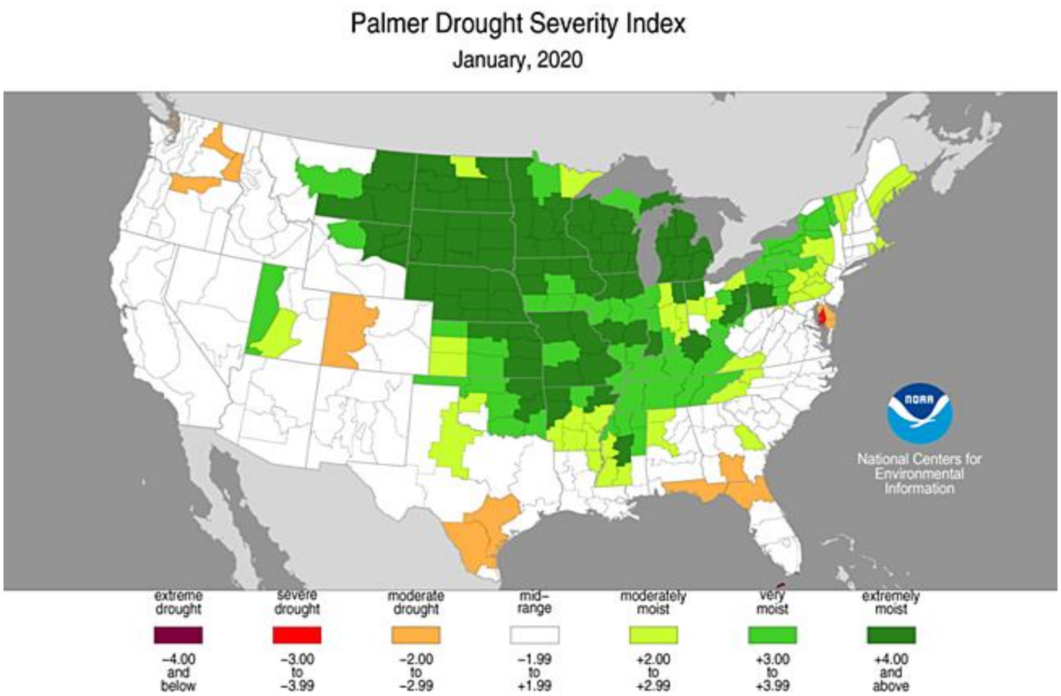
Too Early to Call Spring Delays?

The weather delays of recent years have been numerous and have given many a reason to want to put especially the past two years behind us. Taking a look at the most recent Palmer Drought Severity Index, which provides a more in-depth look than the Drought Monitor and shows the current saturation of the Midwest.



Above: Much of the corn belt has seen above average seasonal precipitation. If snowfall continues at a normal rate, there is a strong likelihood that there will be delays in spring planting this year. This would only add to the expected mix of speculative numbers for where corn, soybean, and wheat acres may end up when it is all said and done.
Image Source: NOAA and Nation Centers for Environmental Information

With speculative reports placing corn in the mid to upper 90 million acre range, there is no doubt that the importance weighing the odds of increased soybean acres or wheat acres is equally important this year as last. The biggest rotation of acres may be likely to come from Kansas and North Dakota, as a large portion of acres can more easily rotate to an alternative crop apart from corn or soybeans. The likelihood of spring wheat emerging as a bigger player in the market is yet to be seen, however, looking to the future, it is expected that there will likely be an opportunity if the market offers a favorable offering.

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Reed's Review

Insurance Calendar

February:
Crop Insurance Policy Reviews

February 12th:
Crop Insurance Update Meeting

March 1st:
Spring Price Discovery Period Ends

April 11th:
Early Replant Coverage Begins: Northern Iowa

May 31st:
Late Planting Period – Corn

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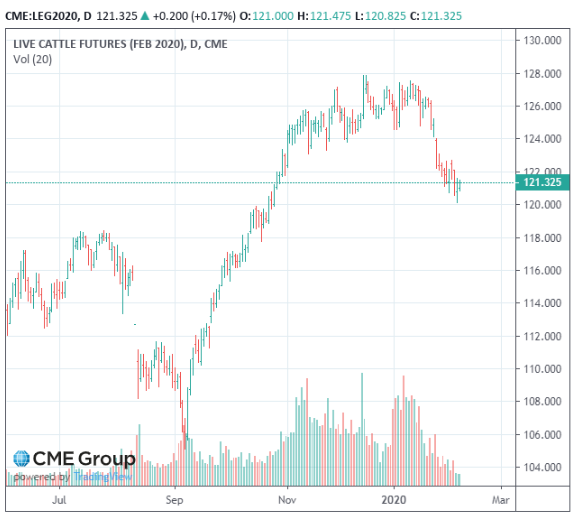
Price Analysis: Fats and Feeders

In previous newsletters I have not talked much on the cattle or hog markets. It is my hope that with continued increased interest that I will cover more and more of the livestock complex along with the grains.

Looking at fat cattle compared to feeder cattle there some substantial differences in how the market is currently being priced. As of late, the cash cattle market has fallen off of its previous highs and found resistance at just below the $1.28 per cwt and have backed off the accelerator since. If a Livestock Risk Protection would have been put in place prior to this decay in price, a high coverage level would have locked in a price near the $1.28 mark while costing around $0.055 per cwt. This may not look very attractive at first, but when you consider that prices are now trading around $1.21 you would be $0.015 ahead.



Cash Cattle have mirrored each other in the fats and feeder markets. Futures haven't seen that to be quite the case.

Fat cattle have had few friends in the market as of late as since late January as prices have continued to fall and found support around $1.21. Because of this recent ride of ups and downs in prices many have considered trying to empty lots and take advantage of the stronger prices before price erodes any further. The reality could be that prices may stabilize and search for new strength as grains continue to cheapen. Alternatively, if Coronavirus continues to cause havoc on international trade, it could halt beef exports and put additional pressure on a demand sensitive market.

Looking at **feeder cattle**, it looks like the time to be getting ready to wean is in the near future as future contracts are looking very stout! Now would be a great time to consider putting in place an LRP contract to insure against a decline in futures prices, which given the recent feel in fats, could provide a bit stronger safety net that few take advantage of.

February 2020

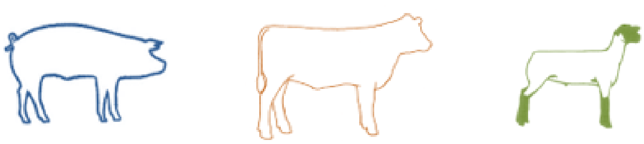
Reed's Review

Price Analysis: Lean Hogs

With much of the focus have been on cattle, we will shift gears and talk about the lean hog market. As of late, the cash market has seemed to have taken a nose dive with the contract nearing expiration, coronavirus, and uncertainty in Chinese demand and follow through in buying.

While cash contracts remain unfavorable, the future looks much brighter if you are able to lock in a fair price on the board. The fun with the hog market, more so than cattle, is that with the Chinese herd being decimated, the upside and demand for American pork is near the highest it ever has been. The main thing weighing in on markets currently seems to be the hesitancy in trade with the virus of the year currently on the move infecting people all across the world. Containment of the coronavirus would certainly give us all a reason to pop open a Corona and give us a reason to smile.

Contract lengths are available for:



Swine: 13, 17, 21, and 26 weeks

Fed Cattle: 13, 17, 21, 26, 30, 34, 39, 43, 47, and 52 weeks

Feeder Cattle: 13, 17, 21, 26, 30, 34, 39, 43, 47, and 52 weeks

Lamb: 13, 20, 26, and 39 weeks

The cost per CWT varies significantly, based on the coverage price, being able to guarantee nearly $1.50 certainly might be worth considering in a bearish market.

Livestock Risk Protection:

Livestock Risk Protection (LRP) works similar to that of Revenue Protection (RP) in Multiperil-Crop Insurance (MPCI) as it protects against decline in price. One of the things that many do not consider is that there is coverage available for feeder cattle, fed cattle, swine, and feeder lambs.

Availability

You submit a one-time application for LRP coverage. After the application is accepted, you can buy specific coverage endorsements throughout the year.

Example: Below is an example of a feeder cattle quote for a producer who is feeding a small lot of steers out to a targeted weight of 900 pounds. Looking at his expected ending weight he wanted to see what coverage options were available in 3 months, 6 months, and 9 months.

State	IOWA	County	HUMBOLDT	Commodity	FEEDER CATTLE	Type	Steers Weight 2			
Share	1.00	Target End Weight	9	Sales Effective Date	02/07/2020					
	Length	End Date	Coverage Price	Coverage Level	Expected Ending Value	Cost Per CWT	Total Liability	Rate	Premium	Producer Premium
	13	05/08/2020	$ 137.21	98.87 %	138.78	4.678	1235	0.034094	42	34
1 Head	26	08/07/2020	$ 145.65	98.73 %	147.526	6.276	1311	0.04309	56	45
	39	11/06/2020	$ 149.81	99.44 %	150.658	7.882	1348	0.052613	71	57

February 2020

Reed’s Review

South American Harvest:

With South American corn harvest beginning across much of Brazil and Argentina, it may lead us to worry about how much more of a slide the crop markets may have in them. Unfortunately, we may find out, there has been speculation that South American yields may not be as strong as many initially expected, however, this does not look to be the case as with the release of the Conab report earlier this morning, it showed that there were increases in expected soybean yield and expected corn yields. In addition, safrinha plantings are beginning as soybean harvest wraps up across Central Brazil. Reports on Brazilian soybean harvest show 15.7% complete, with Mato Grosso, one of the country’s greatest ag producing provinces has around 40% harvested. This is somewhat normal and the Brazilian harvest looks to show favorable outlooks at the future weather forecasts appear ideal. Next month will feature a deeper look at South American agriculture and estimates.

Reed’s 2020 Recommendation:

Multi-Peril Crop Insurance:

- $0.25 Price Buy-Up on Corn, insuring a spring price of $4.15
    - 85% Revenue Protection, Optional Units, Corn
- $1.00 Price Buy-Up on Soybeans, insuring a spring price of $10.20
    - 85% Revenue Protection, Optional Units, Soybeans

Hail Insurance:

$250 per acre BASIC Coverage Soybeans
$250 per acre DXS10 Hail Coverage, DXS5 Wind with Extra Harvest Expense

The Takeaway:

Looking at some of the different opportunities in the near future, it may be prudent to keep a close eye on the South American production numbers and see how they will stack up to previous years. Looking at livestock prices can be a tough thing as of late, however, with a livestock insurance policy in place, piece of mind isn’t too far away. Just think what you would give to lock in a price of north of $1.50 per cwt for feeder calves or close to $1.25 for fats, especially if we’re headed south with the market……

Until next time, stay safe, be proactive and work to reduce your operation’s risk. Thanks for reading!

All the best,

Reed