December 2019

AGRIPERIL

Reed's Review

Understanding FSA Changes

Reed Burres

Quick Preview:

- ✓ *ARC or PLC, Understanding the Changes*
- ✓ *USDA Numbers: Naughty or Nice?*
- ✓ Extension Links
- ✓ *Reed's Recommendation*
- ✓ The Takeaway

Underwriting, Agents, & Staff

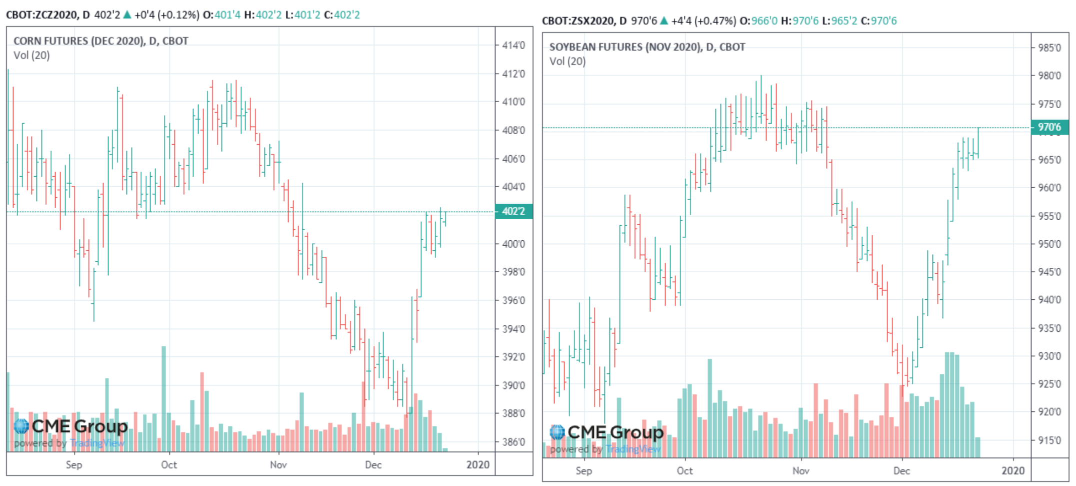
Tim Burres: tim@agriperil.com

Reed Burres: reed@agriperil.com

Graphic Design: Alex Retalick

Web Design: Ethan Laughery

Lately, there has been a lot of buzz and a clear need for many to learn more about their options for enrolling in either Price Loss Coverage (PLC) or Area Risk Coverage (ARC) for this upcoming two-year period. Let's not forget to mention that following this two-year period you must re-enroll your fields on an annual basis through the life of this current farm bill. If you feel that you are in a position that you are not very comfortable with understanding the differences in PLC and ARC and need to make some decisions on which to choose, fear not, this month's issue we will be taking a much closer look at what the different option types actually mean.



Above: USMCA and the China Trade Agreement are both in the works and markets SHOULD reflect the optimism. What factors are standing in the way of us seeing $4.00 plus CZ (December 20 Corn)? How will President Trump's "impeachment" proceedings impact both the stock and commodity markets? Will the implications be sustained? Likely not is the general sentiment, but we never seem to know anymore……..
Image Source: CME on CZ and SX Futures

As we transition further from the harvest season USDA numbers seem to have less relevance as the focus on information from the 2019 harvest season is considered "old news" for some and the hot topics with what's going on with South American predictions for planting progress and expected yields have taken over the radar of some traders. What will be more important than formulating a good marketing strategy for 2020 and the remainder of 2019 will perhaps be keeping an eye on what the better option for re-enrolling our fields into ARC or PLC, and which will dollar up better given certain expectations.

AGRIPERIL

Reed's Review

Insurance Calendar

December:
Production Reporting

January:
Crop Insurance Coverage Reviews

February:
Crop Insurance Update Meetings

March:
Spring Price Discovery Period Begins

April 11th:
Early Replant Coverage Begins: Northern Iowa

Check Us Out, *Online!*

Website: www.agriperil.com
Facebook: @agriperil
Twitter: @agriperil

Disclaimer
The market content published through Reed's Review is based on factual information. Market projections are opinions and is not a recommendation that any particular commodity, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Which Option to Choose?

Area Risk Coverage (ARC) or Price Loss Coverage (PLC)?

Understanding the differences between ARC and PLC coverage will be very important here moving forward until the next farm bill. The terms ARC and PLC are common for many, but how many of us actually know what these acronyms stand for? The names Area Risk Coverage and Price Loss Coverage imply very different things. As you might expect ARC, focuses more on the yield component and PLC, on that of price.

Though the Farm Service Agency will offer a plethora of tools to help us understand how these tools may be able to help us, they will leave us with very little aide when it comes to making the actual decision of which will likely pay out better in the future.

Things to take into consideration:

PLC yields can be updated, this can only help you as you will only receive the higher of your current yields or the simple average of yields from 2013-2017 multiplied by 81%. Your current yields can be found on your 156-EZ, which breaks fields out by Farm Serial Number (FSN). Fields that share a FSN must have yield information entered for all fields under that FSN. For example, if you own a field in Section 35 of Johnson Township and a field in Section 22 of Weaver Township, and they share Farm Serial Numbers, you would have to average their yields from the 2013-2017 time period and follow the process mentioned above.

If you suspect that the marketing year average (MYA) price will be below $3.70, then perhaps you should consider PLC. The payment would then be figured by multiplying the PLC yield for your FSN's by the price shortfall. Some traders and brokers alike have speculated that the corn acres for 2020 could be well over 95 million acres, giving some a bearish price outlook and making PLC look more favorable for some, just food for thought!

ARC County will be using Trend Adjusted yields, and focuses more so on county yields. If you had ARC and received a large payment in one county and a small payment in another during the same year it was due to a substantially lower yield in the first county.

With ARC you are betting on the county having lower than average yields (average county yield varies significantly across states and regions) and with PLC you are betting on the marketing year average price being lower than normal ($3.70).

December 2019

Reed's Review

ARC/PLC in Summary

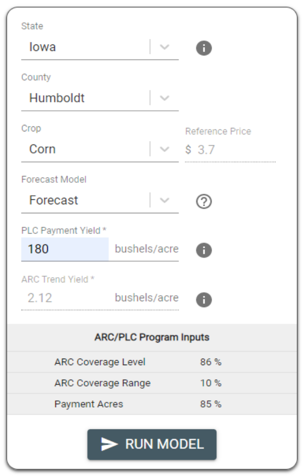
The tools and resources we have in this day and age to make an informed decision on this important topic are abundant. Between FSA and other state programs with highly advanced models, many can feel confident in the decisions they make for the future.

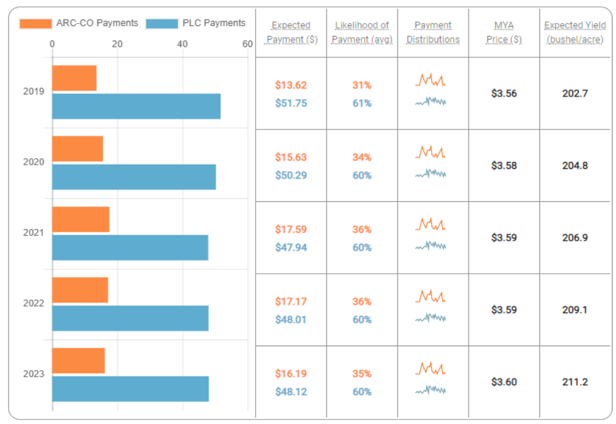
Helpful Links:
Iowa State University:
https://www.extension.iastate.edu/agdm/info/farmbill.html

Payment Calculator (ISU Excel):
2018 Farm Bill Payment Estimator.xlsx

University of Illinois:
https://fd-tools.ncsa.illinois.edu/
(Good for Midwestern states, you will need to create an account to use, screenshot example of Humboldt County Iowa to the right)

Above: AgriPeril hosted a client meeting where county FSA director and insurance company representatives came together and discussed the changes in the farm bill and what things they should be aware of when they go to decide ARC or PLC and how they update PLC yields.





Product Review of 2019

In 2019 we expanded our list of insurance and risk management tools that we offer. Many are familiar with multi-peril insurance and hail insurance, however few had ever heard of other products such as: Margin Protection (MP), Pasture, Rangeland, and Forage (PRF), Livestock Risk Protection (LRP), Livestock Gross Margin (LGM), and many other private products that we encouraged producers to take a more serious look at. To the right are Reed's 2019 Recommendations, apart from Hail Insurance, loss damages varied significantly from area to area, recommended plans paired with the Revenue Price Option tool triggered an indemnity substantially faster than normal MPCI plans.

Reed's 2019 Recommendation:

Multi-Peril Crop Insurance:

- $0.30 Price Buy-Up on Corn, insuring a spring price of $4.30
    - 85% Revenue Protection, Optional Units, Corn
- $1.00 Price Buy-Up on Soybeans, insuring a spring price of $10.54
    - 85% Revenue Protection, Optional Units, Soybeans

Hail Insurance:

$200 per acre BASIC Coverage Soybeans
$200 per acre DXS10 Hail Coverage, DXS5 Wind with Extra Harvest Expense

Reed's Review

By the Numbers:

Actualized results varied significantly from region to region across the states. Iowa had 464,000 acres of prevented plant crops, whereas, Missouri had 1,400,000 acres. Areas that did better than expected yield wise could found all across the growing regions and as a result there were strong enough yields for the USDA to 167.0 bushels per acre on corn which was 2.0 bushels below our best guess based off of crop progress Good to Excellent ratings and previous years' information. Subsequentially, the national production of 13.61 billion bushels was also lower than our averaged information suggested, regardless, the struggle with price has continued and there has been little uptick in price; there is little speculation that we won't see the 3rd round of MFP payments be awarded.

Our production estimates for soybeans were slightly higher than the USDA report, as the USDA suggests production of 3.55 billion bushels and our estimates were 3.88 billion bushels. Regardless, this yield shortfall will hopefully provide the spark along with increased trade with China to reduce ending stocks enough to energize the markets.

The USDA numbers and recommended products tie together very well as the year wrapped up. The spring to fall price shortfall was $0.10 on corn and $0.29 on soybeans, this means that producers had an already higher trigger yield and had to produce less bushels to receive an indemnity. For producers who took out a Revenue Price Option policy with us, the bushels required to trigger a loss were substantially lower. In the example, we used a higher purchased price of $0.30 on corn and $1.00. These amounts proved to be very helpful, for some the $1.00 additional on soybeans would have made significant difference in triggering a loss and folks who had this type of policy tended to do well with it.

The Takeaway:

With the year wrapping up there are plenty of loose ends to tie up, make sure that the things are actually important to you get done and that things that can wait, wait. This holiday season hold your loved ones a little closer and remember that without Christ, there is no Christmas! Mill over the ARC/PLC information and get in and visit with your local FSA personnel, they'd love to visit about which might be better for you.

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

All the best,

Reed