Reed's Review

Reed Burres

Quick Preview:

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- ✓ *Dates to Remember*
- ✓ WASDE Reaction
- ✓ *Soil Moisture Tools*
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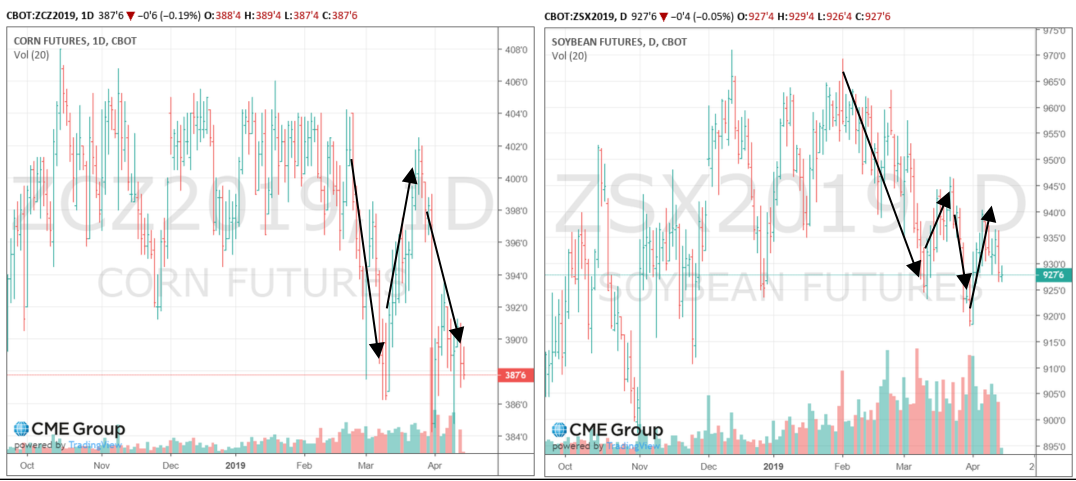
Our ~~Savior,~~ Markets, soon to be Risen!

Similar to how Jesus' disciples prayed for him to arise from his grave, we too, may be praying for commodity prices to also rise and resurrect the hopes of many when it comes to being profitable during the 2019 crop year. Currently, the market continues to face less than ideal sentiments from new trade information, expanded disease outbreak, current planting conditions, and a slew of additional factors. It seems that with each bit of positive or neutral market news, the following day funds seem to find some form of pessimism on the horizon and dig their heels in further to the continual downward price trend.



Recent market news has caused corn and soybeans to trade mostly lower over the past few weeks. **December Corn** continues to have prices erode and trade lower; a price rebound may come price when if the Midwest is continually delayed with planting. **November Soybeans** may be able to rebound some if a new trade deal relieves agricultural tariffs with China. This may be a stretch and farmers might be more focused on the gloomy downside of increased soy acreage.

Image Source: CME Group Corn and Soybean Futures

The grain market has seen significant struggles, as the give and take relationship between corn and soybean acreage will only become more and more obvious as acres been to transition. The acreage transition process has not nearly as smooth as many had once expected, as weather conditions in parts of the Southern Cornbelt are drastically different than the farmers in the Eastern or Western areas.

My greatest concern for many farmers is the speed in which the market will react or move based on two main reports. These will likely occur during the May edition of the USDA's World Agriculture Supply and Demand Estimate, released *May 8th*, and the USDA's Expected Acreage Report, released on *June 28th*. We will likely have strong indicators of market direction prior, however, these dates are important and need to be closely watched.

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Dates to Remember and Watch

Speaking of dates to closely watch, we are now past April 11th, which is the earliest farmers in Iowa can plant corn and qualify for replant coverage; this date is April 21st for soybeans. Other additional days of importance for farmers in Iowa are May 31st, the end of full revenue coverage for corn, and June 25th, the end of full revenue coverage for soybeans. When crops are planted past these dates, for each day delinquent you will lose 1% of your total revenue guarantee. Up until the final planting dates, which once past, you will receive your prevent plant guarantee. If you have questions about your state dates and deadlines, free feel to reach out to Reed by phone or email.

Multi-Peril Crop Insurance Coverage Loss Example:
(assuming a Corn proven APH of 200 bushels and using spring price of $4.00)
(assuming a Soybean proven APH of 60 bushels and using spring price of $9.54)

Coverage Guarantee Per Acre for Corn on:

- May 31st: $800 (100%)
- June 1st: $792 (99%)
- June 15th: $680 (85%)
- June 25th $600 (75%)

Coverage Guarantee Per Acre for Soybeans on:

- June 15th: $572.40 (100%)
- June 16th: $566.68 (99%)
- June 30th: $486.54 (85%)
- July 10th: $429.30 (75%)

Market Disruption, Courtesy of the WASDE

Taking a deeper look at the numbers, when the April WASDE was released, no one was expecting and farmers certainly weren't asking for an additional 200,000,000 bushels of corn to be discovered by the USDA. Needless to say, the market reaction was appropriate as Ending Stocks now sit a 2.035 billion bushels of corn. Soybeans have been relatively quiet on the report numbers and more and more fear that the acreage flip from corn on corn, may turn into corn to soybeans, because of continued planting delays in the Midwest.

Release of the April World Agriculture Supply and Demand Estimates caused serious market reaction as the USDA increased the United States corn carry out substantially. The reaction has been one of the strongest influencers in the corn markets continued downward slide.

March Estimate: 1,835,000,000 → **April Estimate:** 2,035,000,000

As previously mentioned, USDA added 200,000,000 (two hundred million) bushels of additional corn to our ending stocks. This amount is only 15 million bushels shy of being equal to the entire state of Texas' 2018 production, which came in at 215,830,000 bushels.

Insurance Calendar

April 21st:
Soybean Replant Coverage Begins

May 31st:
Late Plant Period Begins for Corn

June 25th:
Late Plant Period Begins for Soybeans
Ends for Corn

July 10th:
Late Plant Period Ends for Soybeans

July 15th:
Acreage Reporting Deadline

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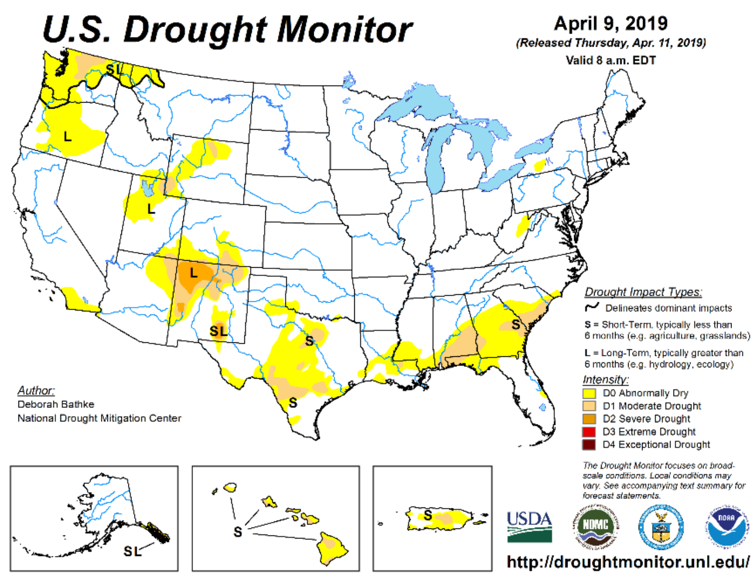
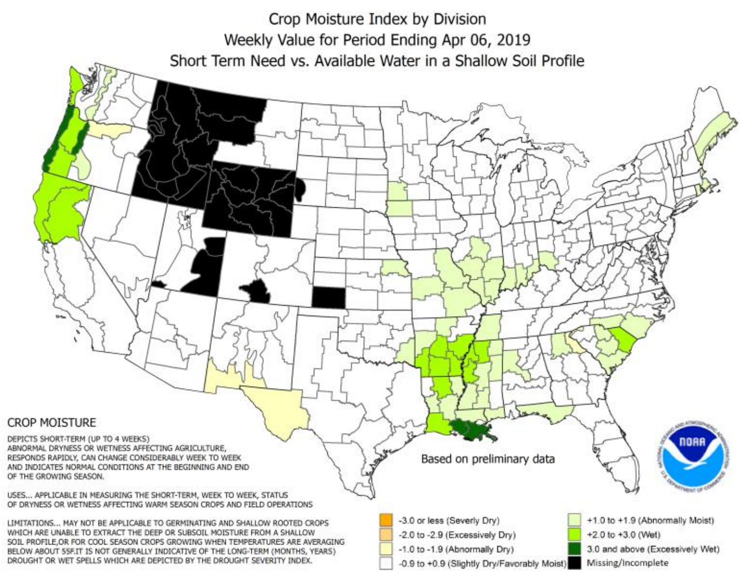
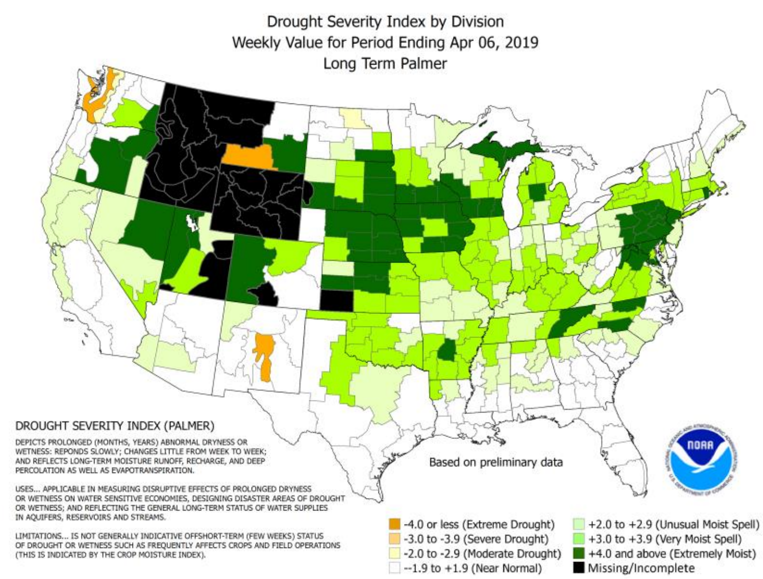
Moisture Analysis Tools

Last month, I used the Palmer Drought Index to show current moisture conditions across the country, comparing the newer version side by side with the Drought Monitor, we see a vastly different story. Additionally, when a third moisture analysis tool can be compared, it is even more clear to see that there are significant differences in these different materials. As it can be seen, the expected story of 2019 is to the degree of severity that it mirrors the 2018 crop year in the Cornbelt. If delayed planting continues, surely, acres will continue to flip for corn to soybeans. If this is the case, it is perhaps no surprise what could come of the expected prices if the shift in acres is severe enough.







Drought Monitor: The Drought Monitor, as appropriately named, looks at longer term conditions of specifically dryness or drought. The Drought Monitor is used by many to reflect areas that are most significantly impacted by lack of rainfall or precipitation.

Crop Moisture Index: Depicts short term and rather immediate soil conditions based on dryness and wetness. The Crop Moisture Index analyzes up to four weeks of previous weather information to create reflective soil conditions.

(Palmer) Drought Severity Index: Focuses on longer term or prolonged periods of dryness or wetness. The information provided by the Palmer Drought Severity Index can help better predict when soil conditions may be adequate for preparation or planting.

Image Sources: https://droughtmonitor.unl.edu/ , https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/regional_monitoring/cmi.gif and https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/regional_monitoring/cmi.gif

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Reed's Recommendations for 2019

Over the past few months of sitting down with clients and visiting about the expected weather events, trade deals, and acreage shifts I decided it was finally time that we find out how good our gut expectations match up against the reality come harvest season. For a while, I found myself encouraging farmers to buy up the spring price of both corn and soybeans, consider carrying higher coverage levels on more marginal ground, and in areas where hail is prevalent, purchase coverage that would fit their needs.

If you have waited for such recommendations or guidance from me to perhaps be more publicly made, *wait no longer*! I have decided to do this, as few analysts will publicly make their decisions known. Clients will have to guess what real previous performance history is and how it translates to value or benefit. My recommendations for the 2019 crop year will remain in each issue of Reed's Review until the November edition, where fall prices are released. Once fall prices are released, I will do a side-by-side analysis and performance review of how beneficial my recommendations would have been for a farmer in Humboldt County Iowa.

This past February through March 15th, when meeting with clients, many were unsure as to what to expect for the 2019 crop year. For many, I shared with them a product that would allow them to purchase an additional $0.05 to $0.50 on the spring price of corn and $0.05 to $1.20 on the spring price of soybeans. When the dust all settled, my average recommendation, was for folks to consider purchasing an additional $0.30 on the price of their corn and an additional $1.00 on the price of their soybeans. With these additional amounts, the insured spring price would be: $4.30 for corn and $10.54 for soybeans.

Reed's 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 on Corn

Questions? Call or text Reed!

The Cost: The cost of these higher spring prices is the main draw back for many, the cost for an additional $0.30 on corn is ***$18.93*** per acre and for an additional $1.00 on soybeans ***$24.95***. For many, these prices are excessively high, however, the benefit that will be seen during harvest, if prices are suppressed, will be substantial. These per acre amounts are also for fields that have approved yields of 200 bushels per acre for corn and 60 bushels per acre for soybeans.

The Value: An additional $0.30 per bushel for corn and an additional $1.00 per bushel on soybeans, the amount coverage is significant. This adds an additional $51 per acre of guaranteed revenue for corn and an additional revenue of $51 per acre for soybeans as well. Because of these higher coverage levels, the trigger yield is substantially increased, especially when a price shortfall occurs during the fall.

Reed's Recommendations Continued

The Math:

Continued from the previous page, assuming an approved yield of 200 bushels per acre for corn and 60 bushels per acre for soybeans, and an 85% coverage level.

This results in yield and revenue guarantees of:

- Corn: 170 bushels and $680 per acre
- Soybeans: 51 bushels and $486.54 per acre

By purchasing a higher spring price, the effective revenue guarantee per acre increases substantially. Revenue Guarantees would be $731 per acre for corn and $537.54 per acre for soybeans. Assuming a decrease in price from spring to fall, the examples to the right illustrate the benefits.

With a harvest price of $3.70, a standalone MPCI policy would have a yield guarantee, because of the price decrease, of: *183.78 bushels per acre.*

With a harvest price of $3.70, an MPCI policy coupled with a $0.30 option would have a yield guarantee of: *197.56 bushels per acre.*

A higher trigger yield of: 13.78 bushels per acre for $18.93 or around 4.74 bushels.

With a harvest price of $8.80, a standalone MPCI policy would have a yield guarantee, because of the price decrease, of: *55.28 bushels per acre*

With a harvest price of $8.80, an MPCI policy coupled with a $1.00 option would have a yield guarantee of: *61.08 bushels per acre.*

A higher trigger yield of: 5.79 bushels per acre for $24.95 or around 2.65 bushels.

The Take Away:

Something to consider, if you feel that there is a high level of price risk exposure, protect it; there are many opportunities to take advantage of price protection tools. If you feel that the price of corn is going to go up due to the shift in acres due to delayed plantings, buy a call or two. Alternatively, if you feel that the price of soybeans will continue to erode without the presence of a finalized trade deal and glut of additional acres, perhaps consider buying a soybean put or two. Futures and options are risky business, there's no doubt about that, however, when there are expected large price swings looming, one of the best ways to protection yourself against that, apart from crop insurance, is through utilizing these additional tools.

God Lord willing, #Plant2019 will be here for many of us Midwesterners before we know it. As we approach this season that is so special for many, please be sure to keep our fellow farmers and ranchers in Nebraska, Western Iowa, and Missouri, who were most impacted by all of the flooding in your prayers. Tough times do not last, but tough people do.

As always if you ever have any questions on what we might be facing in the future for the crop or livestock markets, feel free to reach out to us at AgriPeril Risk Management. As farmer agents, we share your price much more than a regular 9AM-5PM agent. We understand that these are trying times and look forward to having the opportunity to work with you in the future.

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

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All the best,

Reed