



Reed's Review



Reed Burres

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**Underwriting,
Agents, & Staff**

Tim Burres: tim@agriperil.com
 Reed Burres: reed@agriperil.com
 Graphic Design: Alex Retalick
 Web Design: Ethan Laughery

The Art of Making Deals

For as long as some have been farming, the trade deal with China has been on the table and served as a point of discussion to be brought up at the table for nearly two years. The implications, both good and bad, have been much more than some can handle and has caused quite the commotion in many coffee gathering areas across the country. Now that this matter is beginning to look like it will be settled, we must ask ourselves, how long until the second and final phases of the trade deal are mutually agreed upon and signed by President Trump and President Xi. The question is, how smoothly will the second signing go and how will the market react?



The current soybean to corn ratio is hovering around 2.35, with the average over the past 20 years closer to 2.55. This means that expected corn acreage will likely be on the rise as it is showing possibly more favorable margins for corn over soybeans. Price ratios for soybeans to corn over the past few years have been much tighter on average with the ratio hovering in the 2.20-2.40 region, meaning that corn is perhaps the more favorable crop to be planted, given price.

Image Source: CME on CZ and SX Futures

Perhaps something that was equally important to the signing of Phase I of the Chinese trade deal was that the Senate finally passed the U.S.-Mexico-Canada Agreement (USMCA) by a bipartisan vote of 89 – 10. Though this event was largely overshadowed, this was a huge win for American agriculture. The USMCA will go to the Canadian Parliament and will likely be signed near the end of February, and then finish off in Mexico. The agreement will hopefully be in place by May, but we are all too familiar with how delays in legislature can go.

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Insurance Calendar

January:

Crop Insurance Coverage
Reviews

February 12th:

Crop Insurance
Update Meeting

March:

Spring Price Discovery
Period Begins

April 11th:

Early Replant Coverage
Begins: Northern Iowa

May 31st:

Late Planting Period – Corn

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Happy or Right?

The January World Agriculture Supply and Demand Estimate (WASDE) certainly provided its own share of surprises and doubts for many. Recently, at a grower meeting that I was able to attend hosted by AgWest Commodities out of Holdrege, NE. The General Manager, Paul Mussman, gave the audience a very clear message, of being happy or being right. At the end of the day, farmers across the country stand firmly on the belief that the USDA numbers are not near where the actual production ended up. The revisions from WASDE to WASDE have been steady, as corn acreage was reduced from 89.9 to 89.7 million acres with national yield being increased from 167.0 bushels per acre to 168.0 bushels per acre. In addition, the report featured increased beginning stocks by another 107 million bushels, which was an unexpected surprise. Somehow through this mess of "readjusted numbers" the ending stocks slightly decreased from 1.91 to 1.892 billion bushels.

Looking at soybeans, the adjusted numbers showed an increase of 0.5 bushels per acre, a decrease in harvested area, and production ended up nearly the same. The overall changes in ending stocks were negated and estimates point to around 475 million bushels. All in all, we are back to ending stock levels that were similar to pre-tariff levels. Now with the first phase of the China trade deal done, perhaps we can chip away one boat at a time overseas.

Right: President Trump and Vice Premier Liu He pose with the freshly signed Phase I of the China-US trade agreement. Phase 2 of the trade deal could feature the US lifting more tariffs on China, but that will remain to be seen.



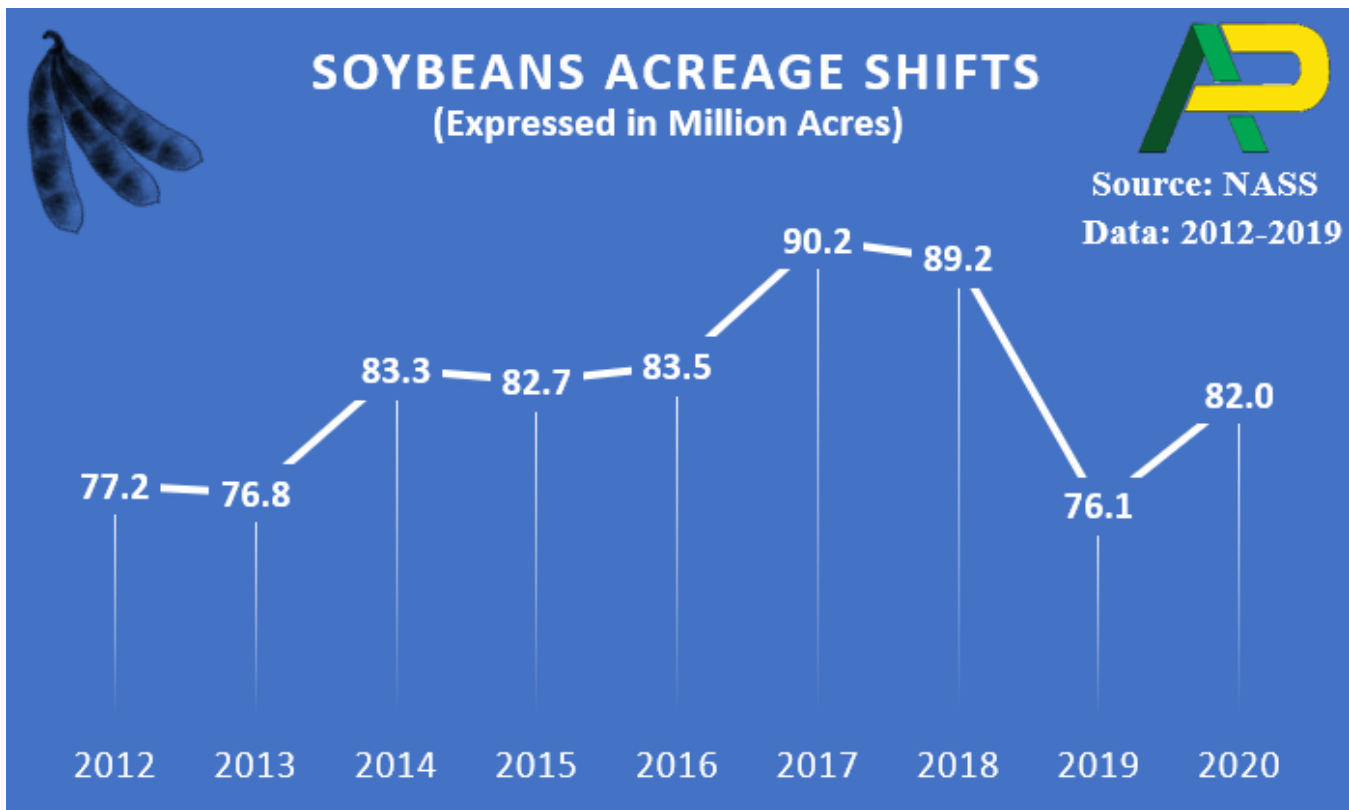
If history were to repeat itself, the USDA will likely be making corrections at some point in the summer months and work to hide it away in an old report, this was similar to what happened in 2015. The unfortunate reality is that US farmers find themselves in a position of being forced to watch what the USDA actions will be. At this point, the USDA is working to be right, rather than happy, hopefully future reports will feature numbers are more market friendly and give farmers something to be happy about.



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Acreage Intentions:

Looking to the 2020 crop year, there will likely be many more acres planted this year, than last. With all of the speculative thoughts on what could be for this upcoming year, some have not been as far to say that corn acreage could be North of 100 million acres. Many estimates are closer to the 95 million acre range. Our estimates are on average lower and in the 93 million acre range for corn. Acreage estimates by many suggest that corn acreage will dominant soybeans again. This has made many wonder what this could do to soybean production numbers and leave things open for discussion and plenty of speculation.



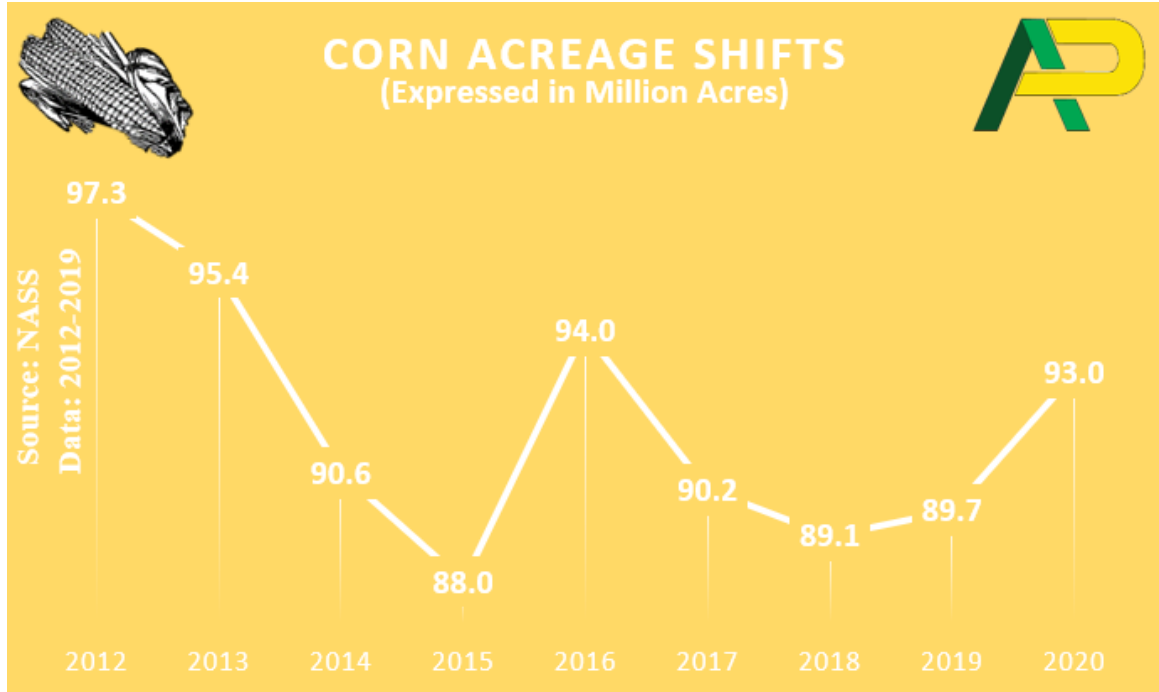
Additional estimates for the 2020 crop year are as follows:

- Corn: 93.0 million acres
- Soybeans: 82.0 million acres
- Wheat: 46.0 million acres
- Cotton: 14.0 million acres
- Rice: 2.5 million acres
- Oats: 2.8 million acres
- Barley: 3.0 million acres

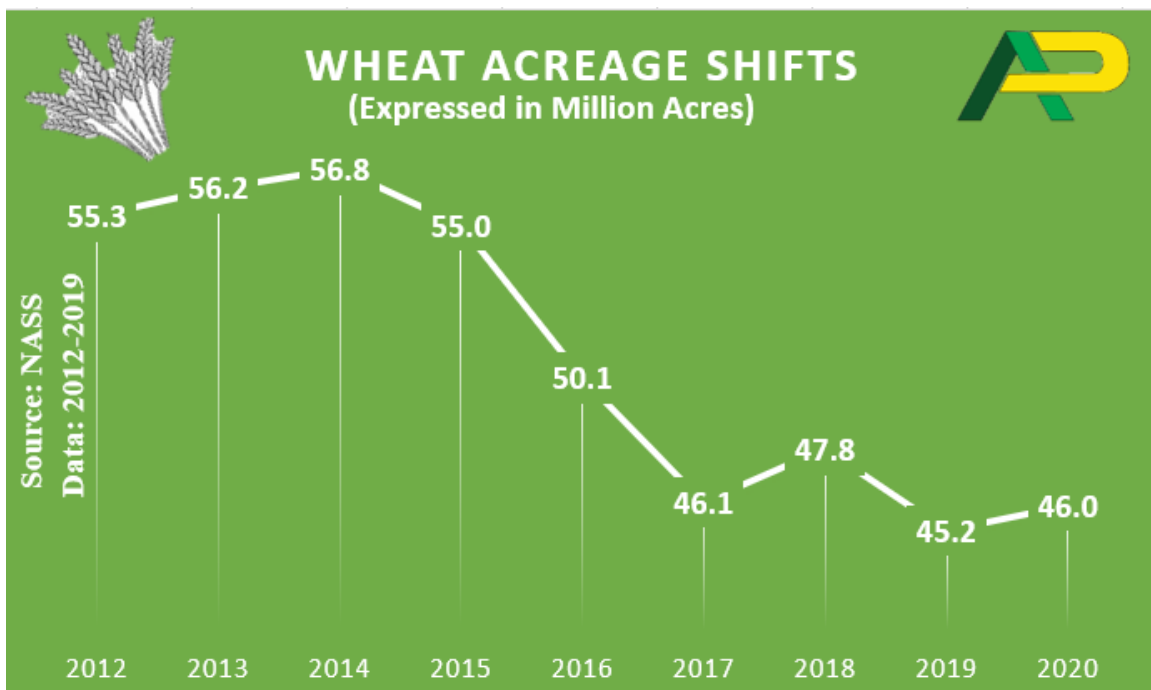
Above: Soybean planted acreage has been steady to climb over the past few years. How will price ratios impact intentions for this year? As we look further ahead into the future we see that more and more farmers are being drawn into the thought of planting corn, even in areas where other crops such as wheat or cotton might normally be the crop of choice.



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Logistics have directed where a majority of the grain goes with many of the larger processing facilities needing rail lines in order to maximize efficiency and cut transportation costs. Because of this, factors such as basis prices have been over the board, seemingly narrowing and widening at the drop of a hat.





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By the Numbers:

Looking ahead, it is clear to see that there will likely be continued price variations for much of the foreseeable future until we have the next signing of the phase with China. One area of interest for some more than others is within the upcoming corn projections. If corn were to have 95 million acres planted or more, which is a reasonable estimate for most, along with normal growing conditions, it is not unthinkable that we could have record production or close to it. Let's look at some at one possibility for this upcoming year. Keep in mind, we currently have production of 13.69 billion bushels from 2019 and we export on average 14.0 billion bushels each year (USDA, WASDE).

- 95.0 million acres planted
- 85.5 million acres harvested
- 173.0 bushel per acre national average
- Total Production of: 14.79 billion bushels (many would call this a bin buster of a year!)

Reed's 2020 Recommendation:

Multi-Peril Crop Insurance:

- \$0.25 Price Buy-Up on Corn, insuring a spring price of \$4.25
 - 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:

Soybeans: \$200 per acre, Basic Coverage
 Corn: \$200 per acre DXS10 Hail Coverage, DXS5 Wind, and Extra Harvest Expense (EHE)

The Takeaway:

As we approach a new crop year, we look towards the future and have to ask ourselves, what will be different this year? What will we do better? What will we do differently? Will we try a new agronomic product, or give a new economic product a chance? The time is now to start seriously considering what the new step for your operation is. Keep an eye on the ratios, but more importantly, the expectations of traders, as that is where the market will ultimately go.

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



All the best,