

Improving Crop Marketing & Insurance Decisions

February 2008



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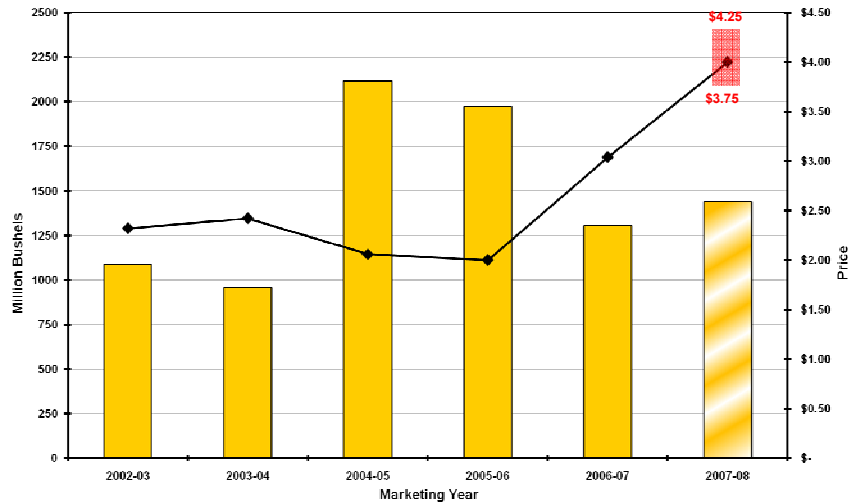
Race to Revenue Objectives

-  **Highlight 2008 Crop Price Outlook & Seasonal Price Trends**
-  **Review Crop Insurance Products and 2007 Iowa Coverage**
-  **Discuss 2008 Spring Base Price Outlook & Potential Crop Revenues**
-  **Summarize some 2008 Crop Marketing Strategies and the Race to Revenue**



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U.S. Corn Ending Stocks vs. Price (National Average Cash)



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Source: USDA WASDE Reports, Feb. 8th, 2008.

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U.S. Corn Balance Sheet

Item	2007-08	2008-09
Planted Acreage (1000 acres)	93600	89,500
Harvested Acreage (1000 acres)	86542	82,000
Yield (Bushels / Acre)	151.1	155.5
Beginning Stocks (Million Bushels)	1304	1,438
Total Production (Million Bushels)	13074	12,751
Total Supply (Million Bushels)	14393	14,204
Feed and Residual (Million Bushels)	5950	5,450
Food, Seed, and Industrial (Million Bushels)	4555	5,710
Exports (Million Bushels)	2450	2,100
Total Consumption (Million Bushels)	12955	13,260
Ending Stocks (Million Bushels)	1438	944
Average Price (\$/bu)	3.70 - 4.30	4.85 - 6.20

2007/08 numbers are projected figures
Last Updated: 1/11/08

◇ - Projected

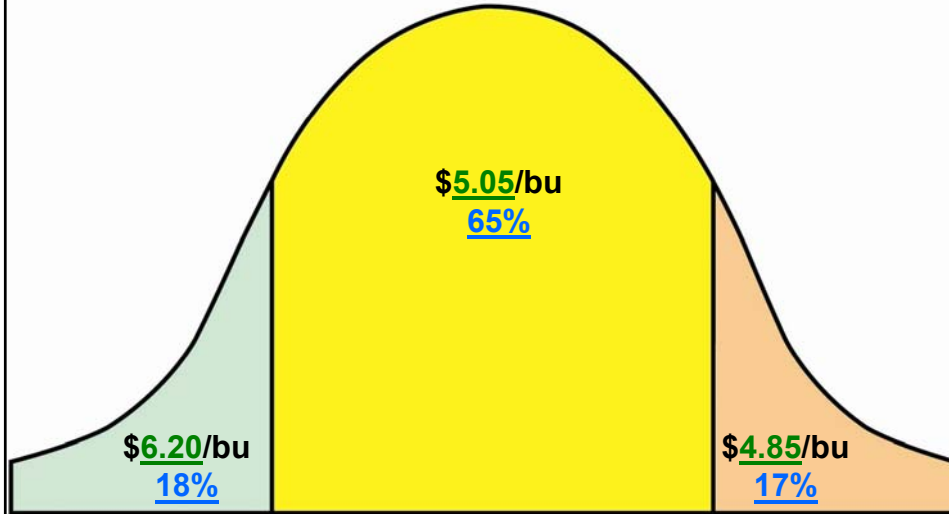
* - Forecast

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Source: Wisner, ISU Economics, Jan. 2008 &
www.farmdoc.uiuc.edu/marketing/index.asp

Corn Cash Price & Probability Forecast

'08-'09 Marketing Year

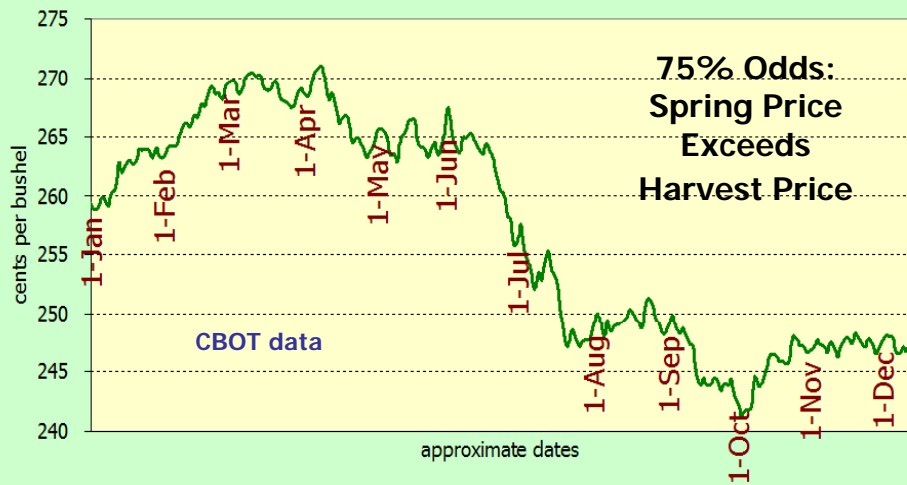


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Source: Wisner, ISU Economics, Jan. 14th, 2008.

New Crop Corn Seasonal Trend

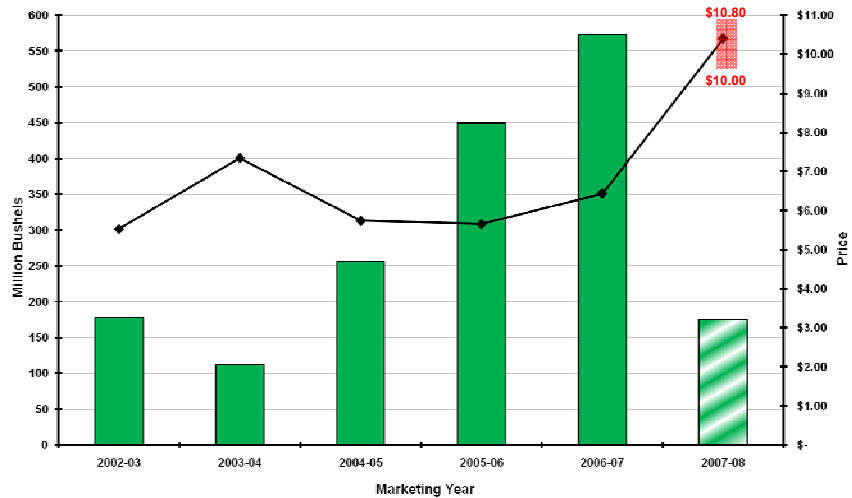
Chicago December Corn Futures, 1990-2007 average



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Source: U of MN, CFFM, 2007.

U.S. Soybean Ending Stocks vs. Price (National Cash Average)



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Source: USDA WASDE Reports, Feb. 8th, 2008.

U.S. Soybean Balance Sheet

Item	2007-08	2008-09
Planted Acreage (1000 acres)	63631	68,500
Harvested Acreage (1000 acres)	62820	67,600
Yield (Bushels / Acre)	41.2	42.5
Beginning Stocks (Million Bushels)	574	165
Total Production (Million Bushels)	2585	2,872
Total Supply (Million Bushels)	3165	3,042
Feed, Seed, and Residual (Million Bushels)	165	175
Exports (Million Bushels)	995	895
Crush (Million Bushels)	1830	1,830
Total Consumption (Million Bushels)	2990	2,900
Ending Stocks (Million Bushels)	175	142
Average Price (\$/bu)	9.90 - 10.90	10.50 - 16.30

2007/08 numbers are projected figures
Last Updated: 1/11/08

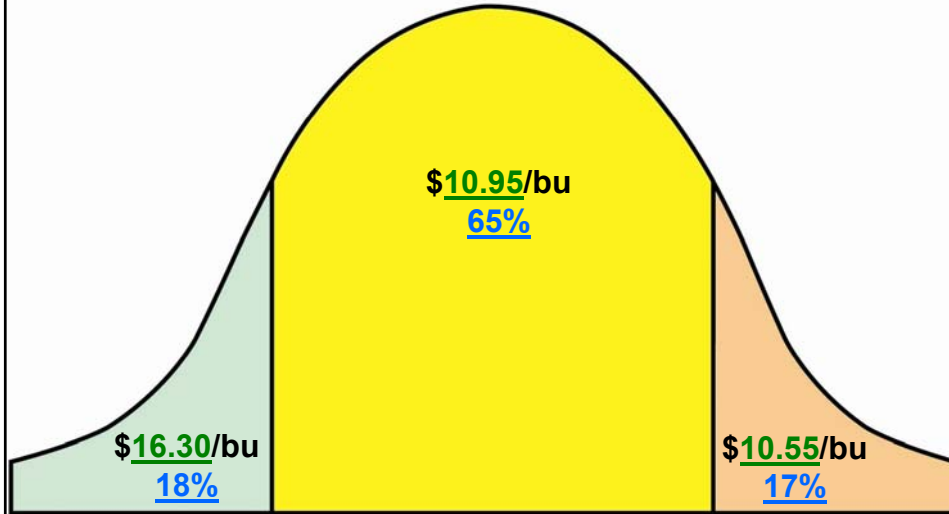
◇ - Projected

* - Forecast

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Source: Wisner, ISU Economics, Jan. 2008 &
www.farmdoc.uiuc.edu/marketing/index.asp

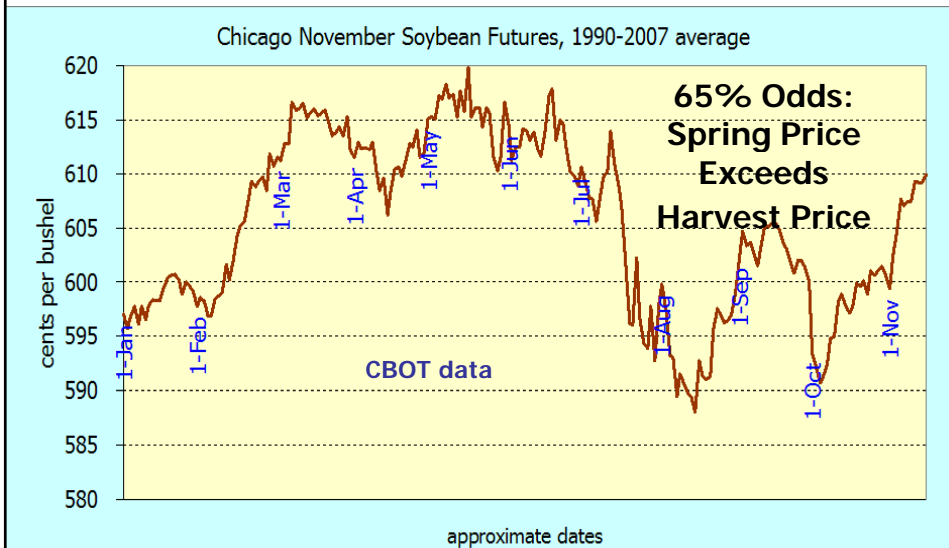
Soybean Cash Price & Probability Forecast '08-'09 Marketing Year



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Source: Wisner, ISU Economics, Jan. 14th, 2008.

New Crop Soybeans Seasonal Trend



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Source: U of MN, CFFM, 2007.

2008 Crop Marketing Strategies

- 1 Consider On-Farm Storage, Fall Cash Flow Needs & 2008 Income Tax
- 2 Compare Forward Contract vs. HTA (Expect Basis Variability)
- 3 Plan to Use Puts for some Unpriced Bushels, Calls for Priced
- 4 Maximize Crop Insurance Coverage with Pre-Harvest Marketing



Yield Insurance Products

- Catastrophic (CAT)
- Multi-Peril Crop Insurance (MPCI)
- Group Risk Plan (GRP)
- Hail

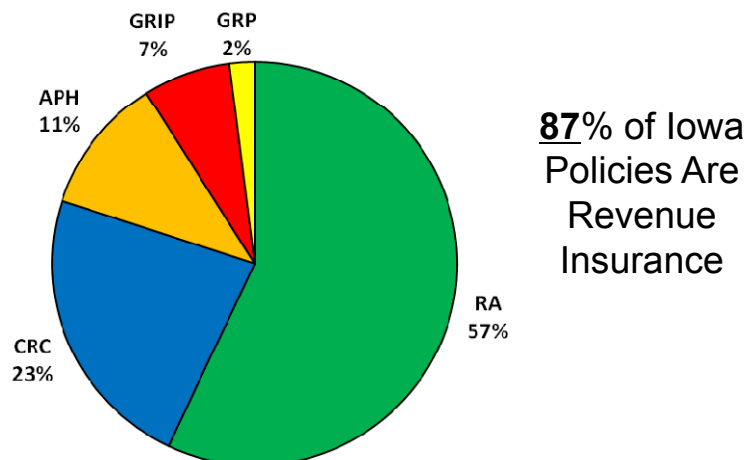
Revenue Insurance Products

- Revenue Assurance (RA) – Standard or Base Price (BP)
- Revenue Assurance (RA) – w/Harvest Price Option (HP)
- Crop Revenue Coverage (CRC)
- Group Risk Income Protection (GRIP) – Standard or Base Price (BP)
- Group Risk Income Protection (GRIP) – w/Harvest Price Option (HP)

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Source: www.rma.usda.gov

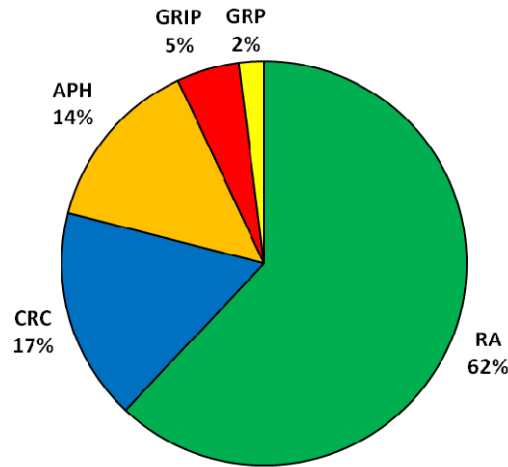
2007 Crop Insurance for Iowa Corn Acres



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Source: www.rma.usda.gov, Nov. 2007.

2007 Crop Insurance for Iowa Soybean Acres

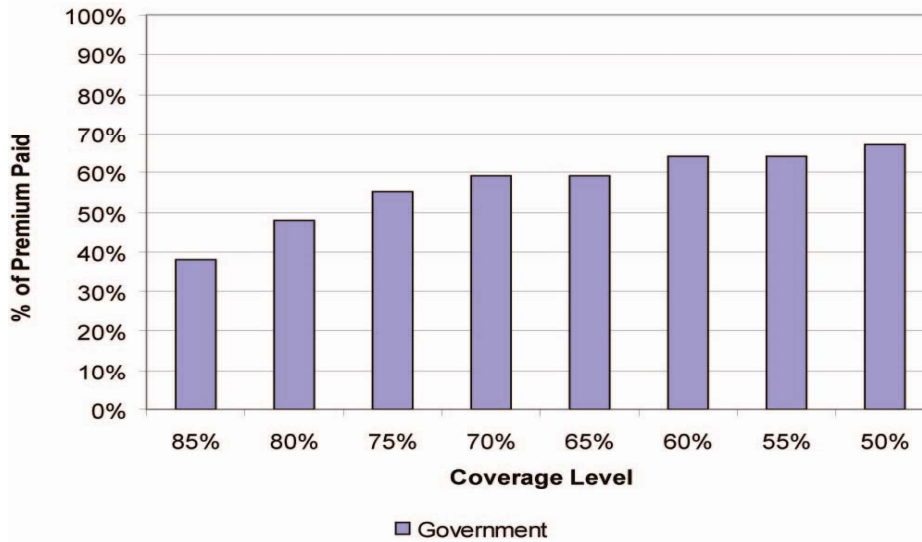


84% of Iowa Policies Are Revenue Insurance

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Source: www.rma.usda.gov, Nov. 2007.

Crop Insurance Premium Subsidies



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Source: www.rma.usda.gov

2008 Insurance Base Prices

- **APH/MPCI & GRP Price**

- Corn \$ **4.75** /bu.
- Soybeans \$ **11.50** /bu.

- **CRC, RA and GRIP Base Price**

Use the February futures price averages for December Corn and November Soybeans

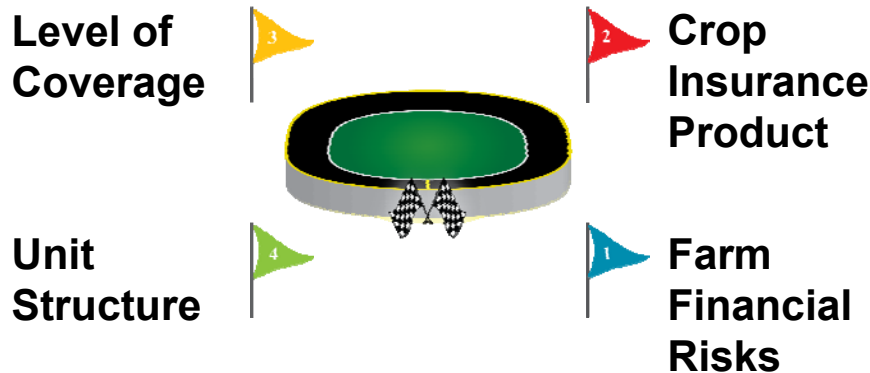
- Corn ≈ \$ **5.28** /bu.*
- Soybean ≈ \$ **12.80** /bu.*

** Base Price and Guaranteed Revenue will be determined in the month of February*

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Source: www.rma.usda.gov Dec. 2007 &
Feb. 6th, 2008.

Race to Revenue



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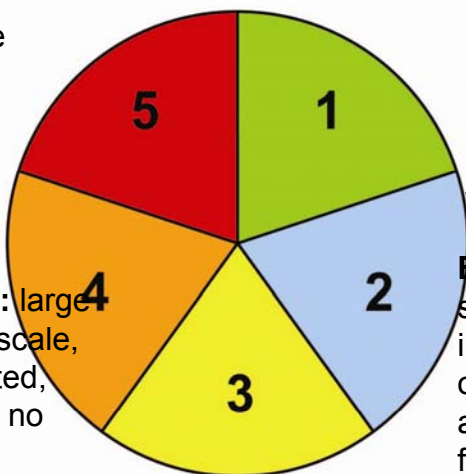
Source: Johnson, ISU Extension, Feb. 2008.

Farm Financial Risk Categories

High Risk: large debt, all cash rented, variable ground, large livestock feeder, limited storage

Above Average: large debt, smaller in scale, mostly cash rented, variable ground, no storage

Average: some debt, larger in scale, mostly cash rented land, variable soils, limited storage



Low Risk: little debt, productive owned land, adequate on-farm storage

Below Average: some debt, larger in scale, mostly owned land, adequate on-farm storage

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Source: Johnson, ISU Extension, Feb. 2008.

Choosing Crop Insurance Products

Farm Financial Risk

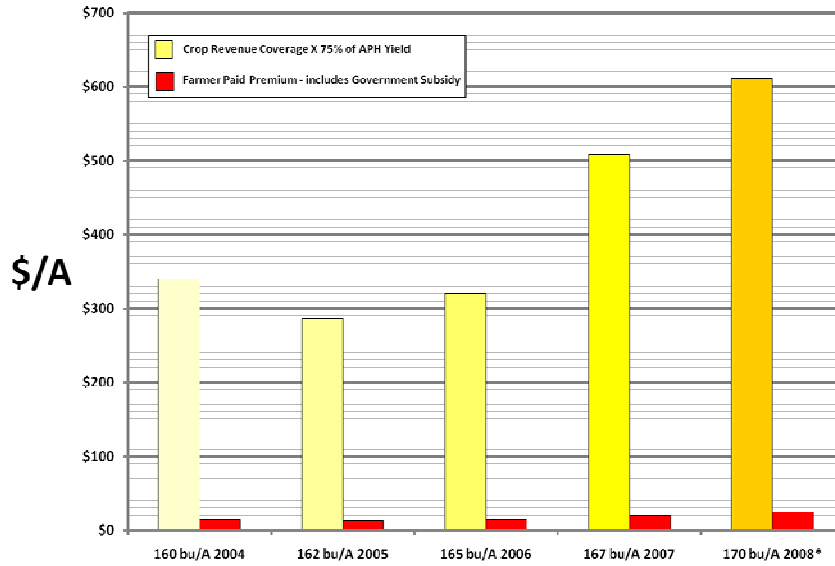
Likely Product

- | | |
|-------------------------|------------------------------------------------|
| 1. Low Risk | GRIP-HR and Hail, APH/MPCI, CRC or RA |
| 2. Below Average | GRIP-HR and Hail, CRC or RA |
| 3. Average | CRC or RA-HP, medium level of coverage |
| 4. Above Average | CRC or RA-HP, medium to high level of coverage |
| 5. High Risk | CRC or RA-HP, high level of coverage |

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Source: Johnson, ISU Extension, Feb. 2008

Corn Revenue Guarantee vs. Insurance Premium



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Source: Johnson, ISU Ext. Economics, Feb. 2008.

2008 Corn Strategy using CRC or RA-HP

170 bu/A APH
 X **75% level of coverage**
127 ½ bu/A Guaranteed Yield
 X **\$5.28/bu * Dec. Corn Futures in Feb.**
\$ 673/A * Guaranteed Revenue

* Base Price and Guaranteed Revenue determined in the month of February

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Source: Johnson, ISU Extension, Feb. 2008.

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decrease	MPCI	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *

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* Base Price and Guarantee will be determined in the month of February

Source: Johnson, ISU Extension, Feb. 2008.

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decrease	MPCI	CRC/RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *

Minimum Revenue Guarantee

APH x % coverage x Base Price

170 bu x 75% x \$5.28 = \$673

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* Base Price and Guarantee will be determined in the month of February

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decline	MPCI	CRC/RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *
Harvest Yield	100 bu/A	100 bu/A

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* Base Price and Guarantee will be determined in the month of February

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decline	MPCI	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$528/A *
Harvest Yield	100 bu/A	100 bu/A
Harvest Price	----	\$4.00/bu

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* Base Price and Guarantee will be determined in the month of February

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decline	MPCI	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *
Harvest Yield	100 bu/A	100 bu/A
Harvest Price	-----	\$4.00/bu
New Guarantee	-----	-----

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** Base Price and Guarantee will be determined in the month of February*

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decline	MPCI	CRC or RA-HP
APH	150 bu/A	150 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *
Harvest Yield	100 bu/A	100 bu/A
Harvest Price		\$4.00
New Guarantee		-----
Indemnity	\$130.63/A	

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** Base Price and Guarantee will be determined in the month of February*

Crop Insurance Comparison Example

Low Yield, Decline in Fall Price ↓

Fall Price Decline	MPCI	CRC or RA-HP
<p><u>Indemnity</u></p> <p>Guarantee - Actual Production x Harvest Price</p> <p>\$673 - (100 bu x \$4.00/bu)</p> <p>\$673 - \$400.00 = \$273/A</p>		170 bu/A
		75%
		\$5.28/bu *
		\$673/A *
		100 bu/A
		\$4.00/bu
New Guarantee		-----
Indemnity	\$130.63/A	\$273/A

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* Base Price and Guarantee will be determined in the month of February

Crop Insurance Comparison Example

Low Yield, Increase in Fall Price ↑

Fall Price Increase	MPCI	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *
Harvest Yield		
Harvest Price		
New Guarantee		
Indemnity		

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* Base Price and Guarantee determined in the month of February

Source: Johnson, ISU Extension, Feb. 2008.

Crop Insurance Comparison Example

Low Yield, Increase in Fall Price ↑

Fall Price Increase	MPCI/APH	CRC or RA-HP
APH	170 bu/A	170 bu/A
Coverage	75%	75%
Base Price	\$4.75/bu	\$5.28/bu *
Guarantee	127 ½ bu/A	\$673/A *
Harvest Yield	100 bu/A	100 bu/A
Harvest Price	----	\$6.00/bu
New Guarantee	----	\$765/A
Indemnity	\$130.63/A	\$165/A

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* Base Price and Guarantee will be determined in the month of February

Crop Insurance Comparison Example

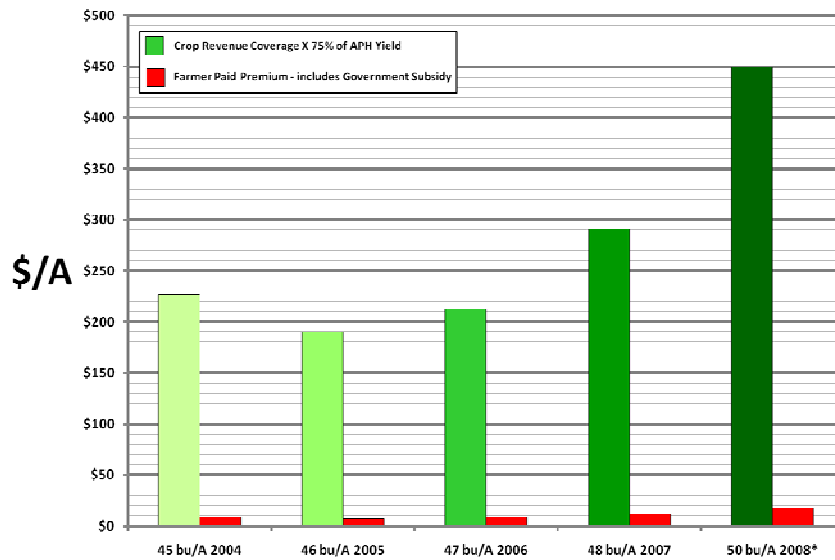
Low Yield, Increase in Fall Price ↑

Fall Price Increase	MPCI	CRC or RA-HP
<u>Indemnity</u> Guarantee - Actual Production x Harvest Price $\$765 - (100 \text{ bu} \times \$6.00)$ $\$765 - \$600.00 = \$165/A$	170 bu/A	170 bu/A
	75%	75%
	\$5.28/bu *	\$5.28/bu *
	\$673/A *	\$673/A *
	100 bu/A	100 bu/A
	\$6.00/bu	\$6.00/bu
New Guarantee		\$765/A
Indemnity	\$130.63/A	\$165/A

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* Base Price and Guarantee will be determined in the month of February

Soybean Revenue Guarantee vs. Insurance Premium



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Source: Johnson, ISU Ext. Economics, Feb. 2008.

2008 Soybean Strategy using CRC or RA-HP

50 bu/A APH
 X **75% level of coverage**
37 ½ bu/A Guaranteed Yield
 X **\$12.80/bu *Nov. Soy Futures in Feb.**
\$ 480/A * Guaranteed Revenue

* Base Price and Guaranteed Revenue will be determined in the month of February

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Source: Johnson, ISU Extension, Feb. 2008.

2008 Crop Insurance Considerations

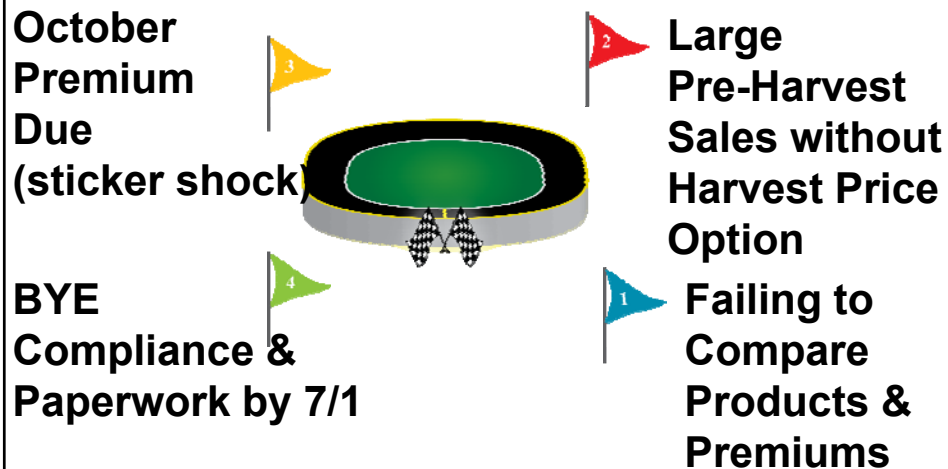
- 1 High February Futures Prices, Large Revenue Guarantees
- 2 Expect Higher 2008 Premiums
- 3 Varying the Level of Coverage
- 4 Unit Structure (Basic vs. Enterprise) & Biotech Yield Endorsement (BYE)



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Source: Johnson, ISU Extension, Feb. 2008.

Possible Crop Insurance Crashes



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Source: Johnson, ISU Extension, Feb. 2008.