

Managing Crop Risks & Revenue

November 2008

**Commodity Funds &
Chart Technicals**



**Fundamentals:
Supply & Demand**

Outside Commodity Markets

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[www.extension.iastate.edu/polk/](http://www.extension.iastate.edu/polk/farmmanagement.htm)

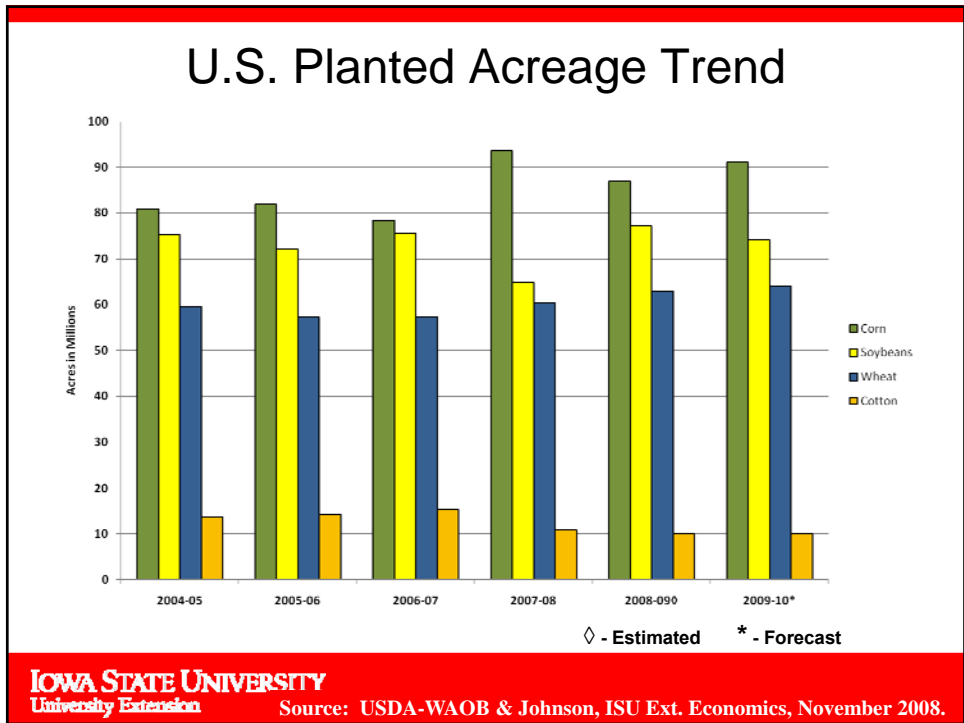
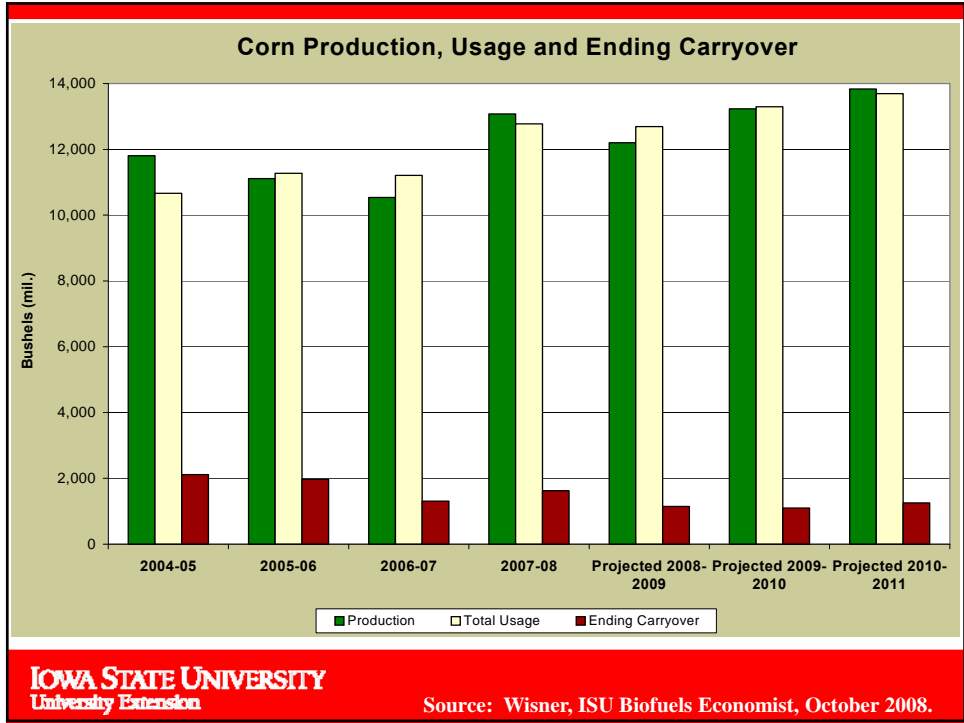
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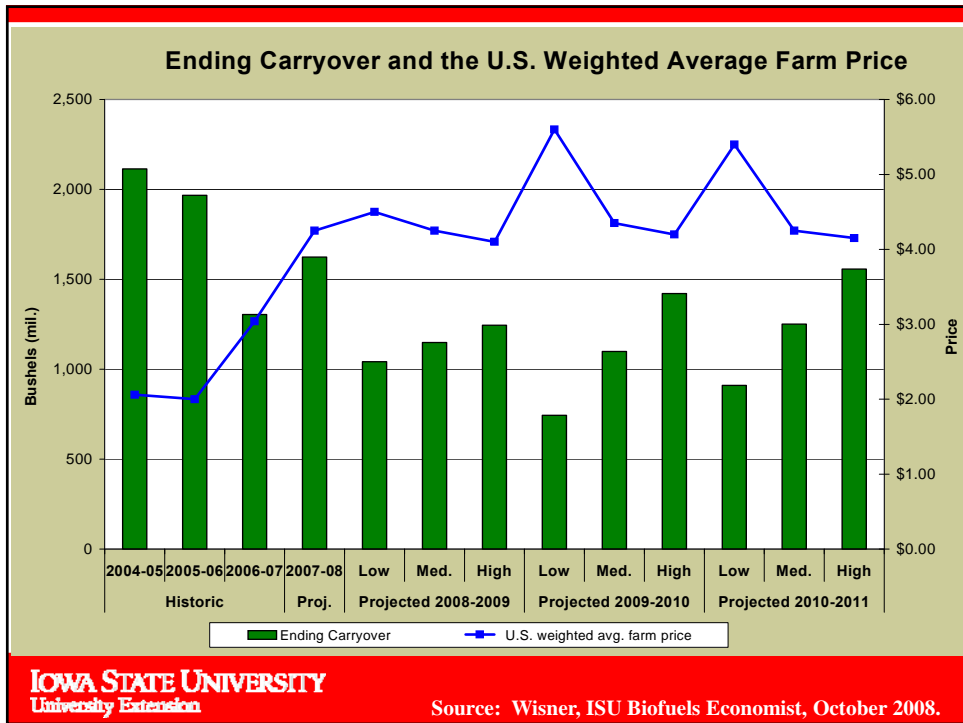
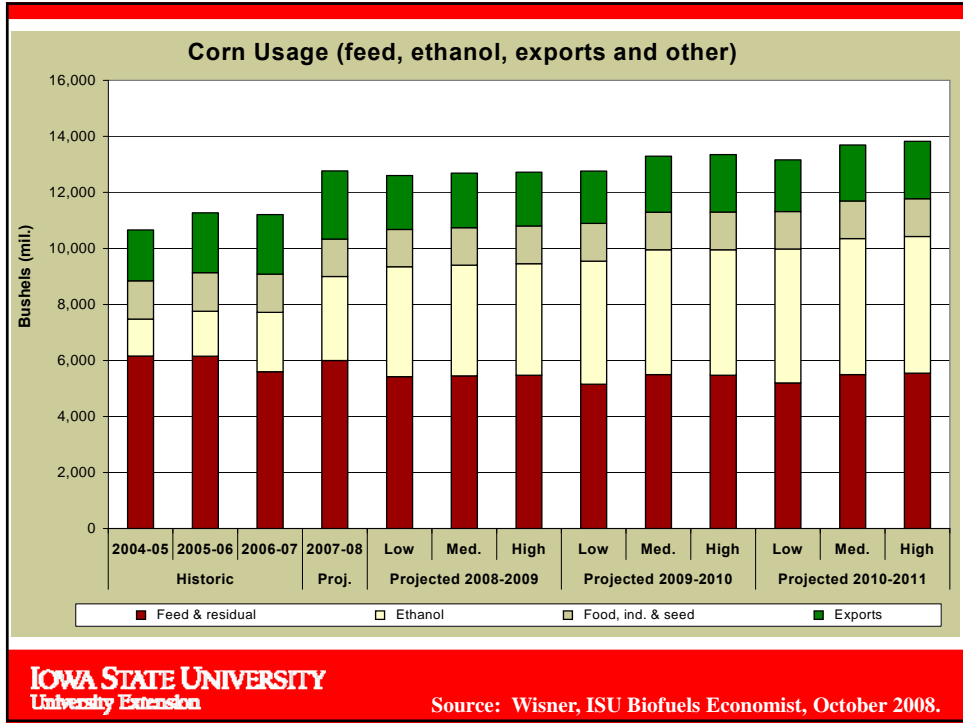
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Presentation Objectives

- **Highlight Crop Supply/Demand and Seasonal Price Trends**
- **Forecast 2009 Crop Corn & Soybean Prices**
- **Forecast 2009 Cost of Production and Net Revenue per Acre**
- **Highlight the New SURE and ACRE Programs available in 2009 through 2012**
- **Provide 5 Strategies and 5 Web Sites for Managing Crop Risks**

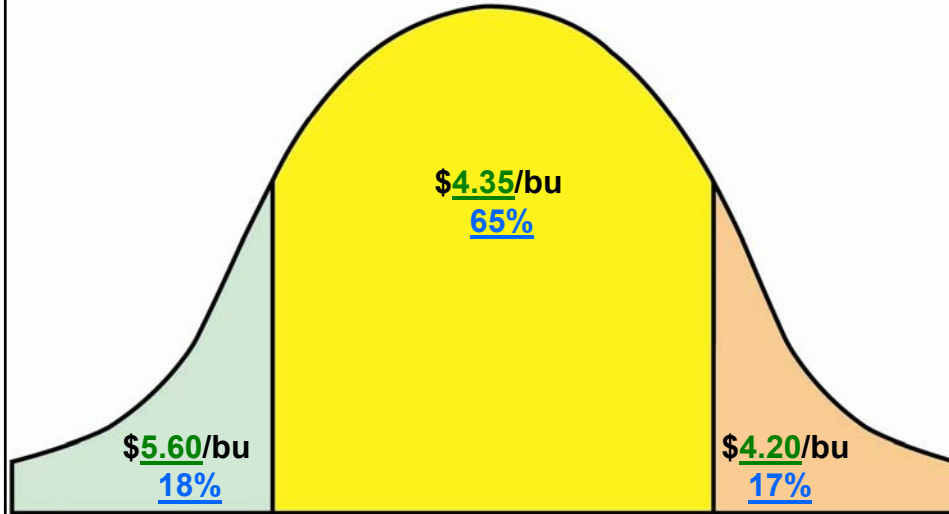
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Corn Cash Price & Probability Forecast

'09-'10 Marketing Year

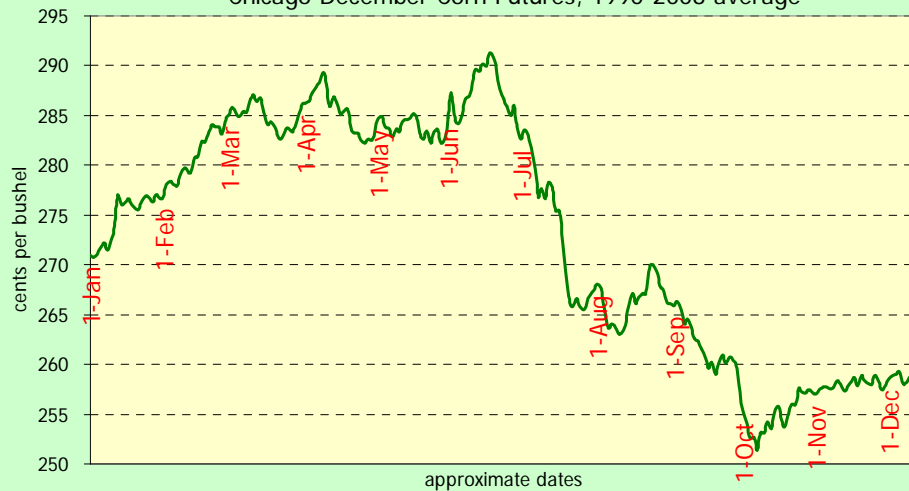


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Source: Wisner, ISU Biofuels Economist, October 2008.

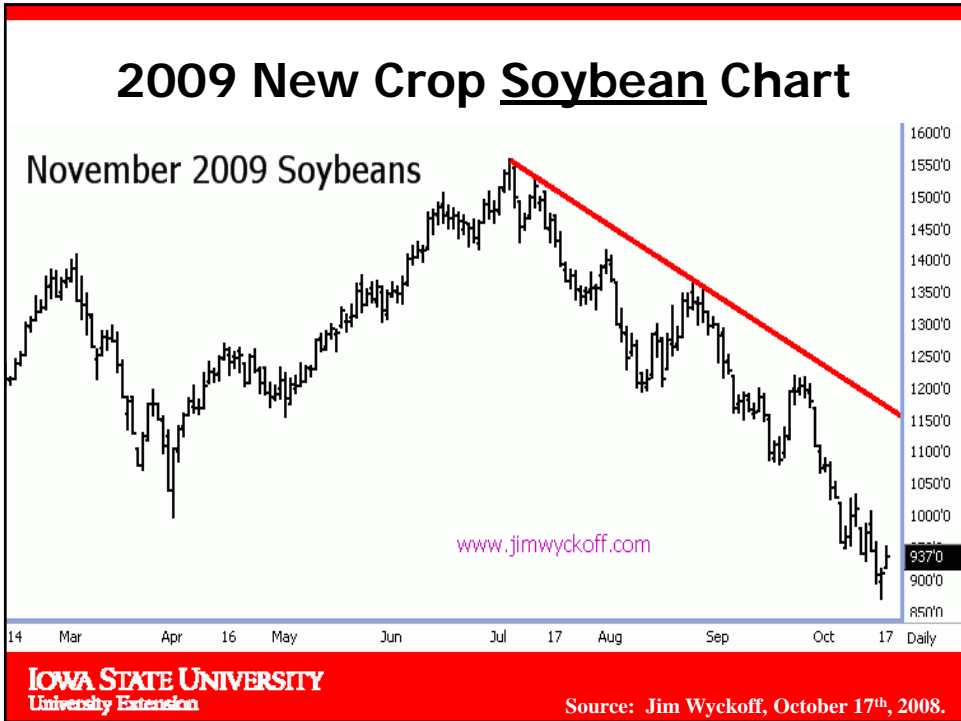
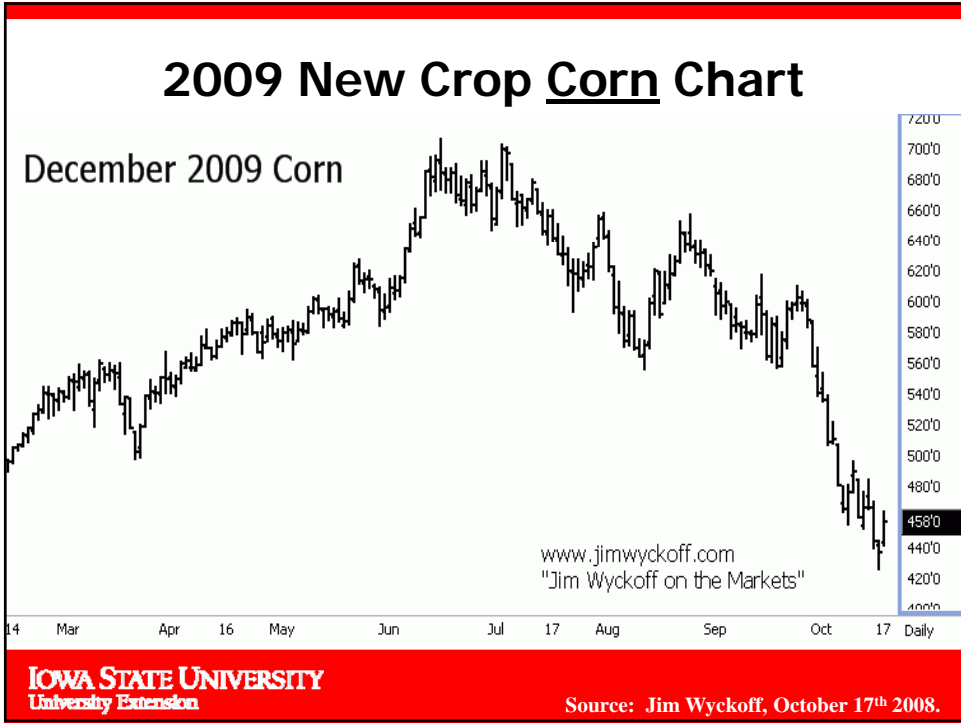
New Crop Corn Seasonal Trend

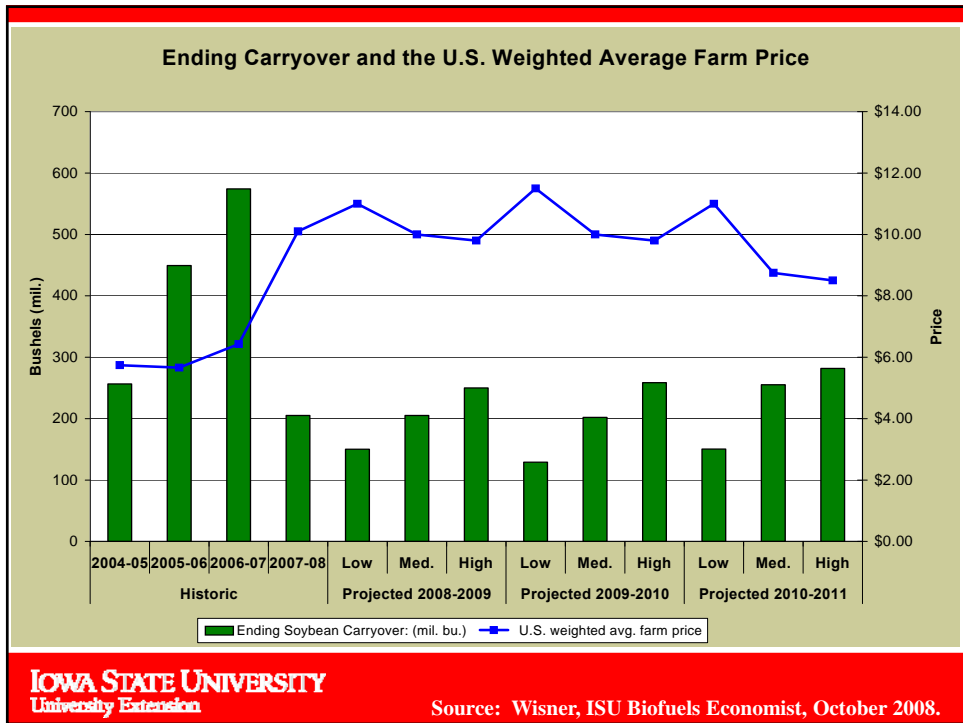
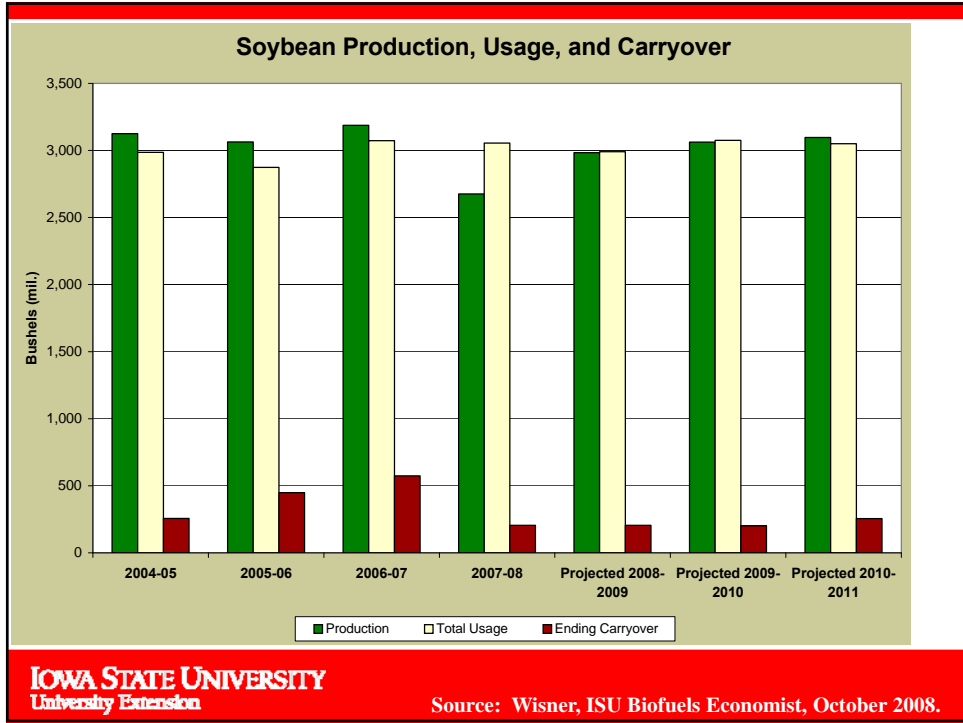
Chicago December Corn Futures, 1990-2008 average



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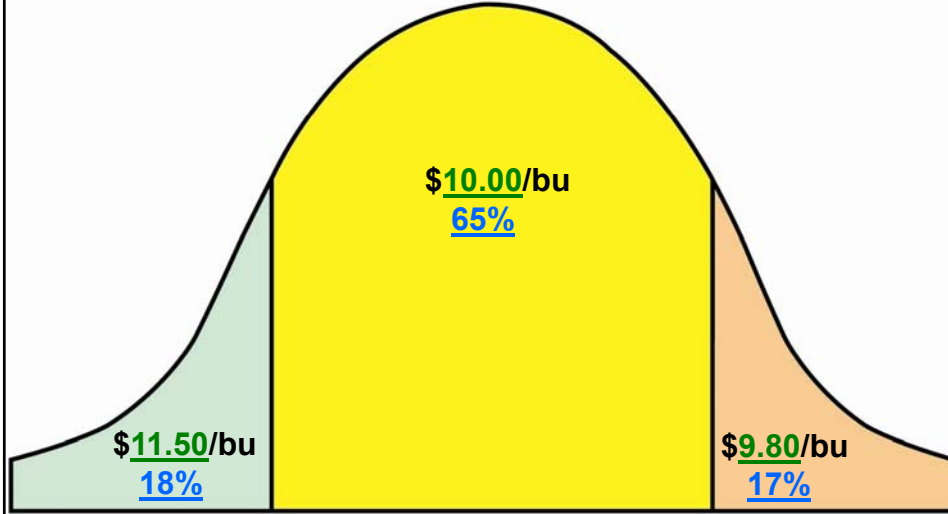
Source: CBOT data compiled by the U of MN, CFFM, 2008.





Soybean Cash Price & Probability Forecast

'09-'10 Marketing Year

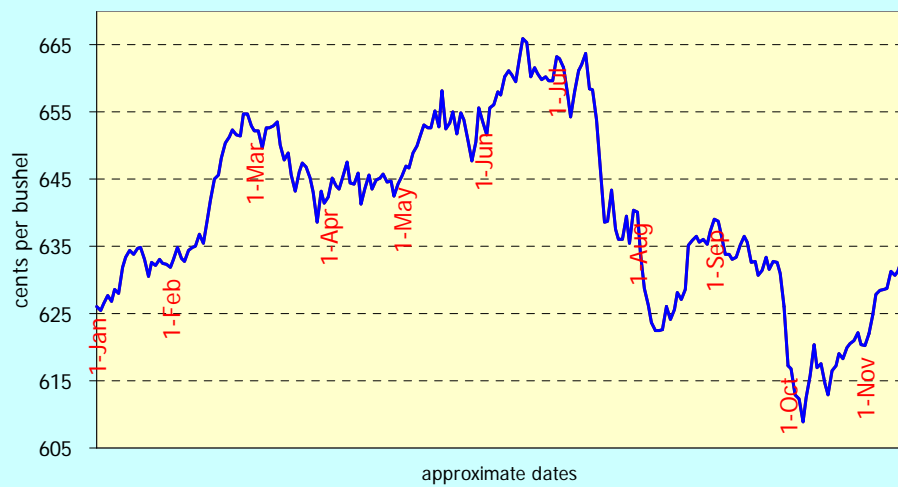


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Source: Wisner, ISU Biofuels Economist, October 2008.

New Crop Soybeans Seasonal Trend

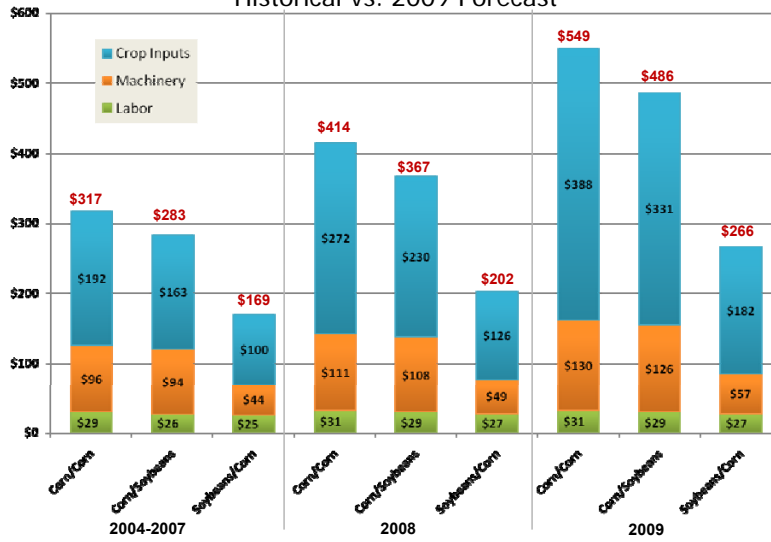
Chicago November Soybean Futures, 1990-2008 average



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Source: CBOT data compiled by the U of MN, CFFM, 2008.

Crop Production Costs – (Non-Land in \$/A) Historical vs. 2009 Forecast



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Source: Duffy, ISU Ext. Economics, July 2008.

Non-Land Costs vs. Gross Revenue (\$/A) 2009 Forecast



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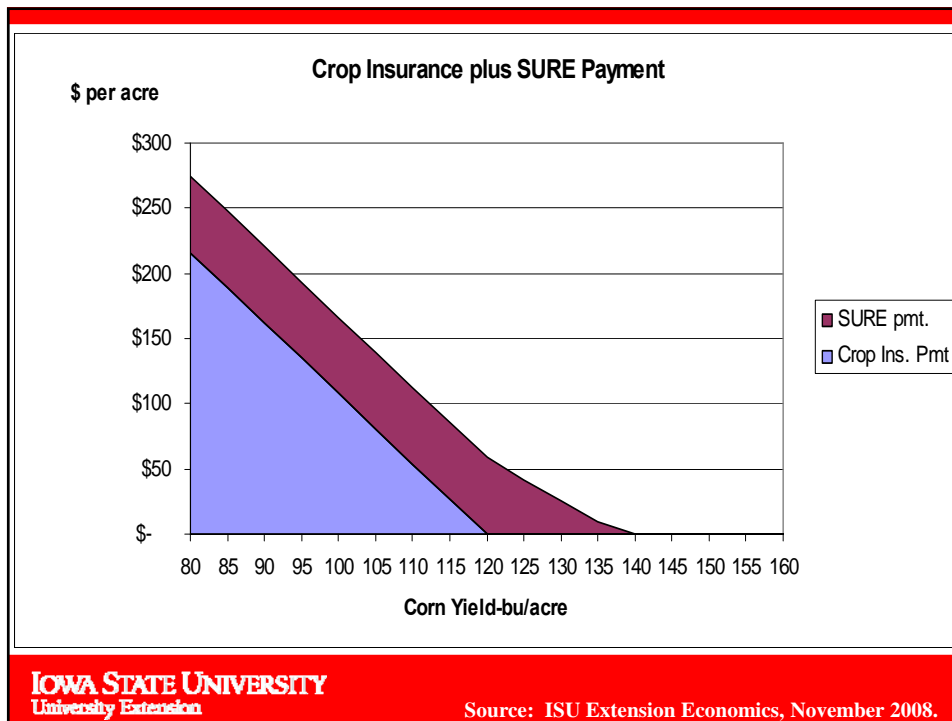
Source: Duffy & Johnson, ISU Ext. Economics, November 2008.

SURE - Supplemental Revenue Permanent Disaster Program

- Provides “add-on” revenue coverage to existing crop insurance
- Covers all crops, not individual crops
- Program offered 2009 through 2012
- Annually, land must be in a “disaster county” (U.S. Secretary of Ag designation)
 - or a contiguous county
 - or crop revenue loss on all crops on all farms must exceed 50%
- All crops on all farms must be insured
- Administered by Farm Service Agency (FSA)

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Source: ISU Extension Economics, November 2008.



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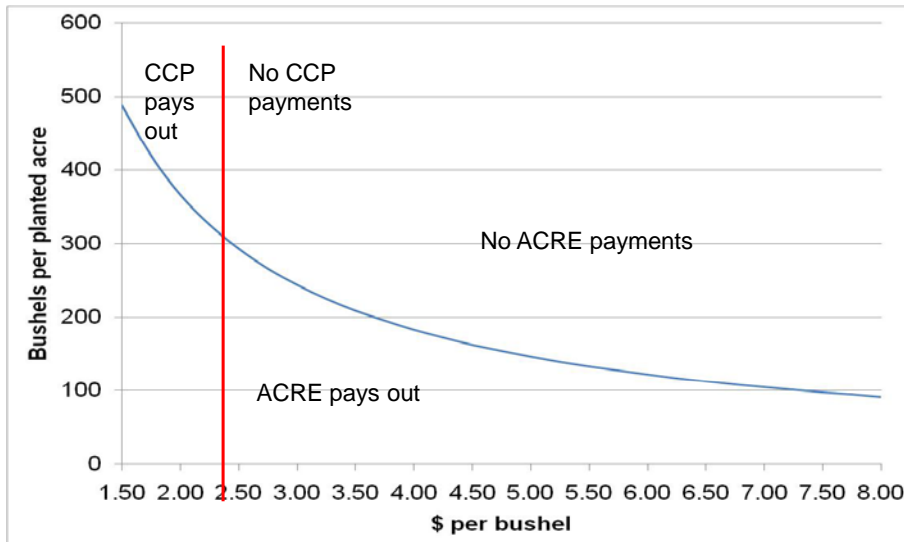
New Average Crop Revenue Election (ACRE)

- Gives producers a one-time option to choose a revenue-based counter-cyclical payment program, starting in 2009 through 2012 (irrevocable election)
- Producers choose between the current program (with the potential CCP) or ACRE
- Computed on planted acres, up to the total number of base acres on the farm
- Price guarantee is the 2-year National Marketing Year Average (MYA) Cash Price.

ACRE Decisions

- Producers choosing ACRE agree to a 20% decline in direct payments and a 30% decline in loan rates
- Program has state and farm trigger levels, both must be met before payments are made
- Expected state and farm yields based on 5-year Olympic average yields per planted acre
- Revenue Guarantee = 2-year National MYA cash price X 5-year state Olympic average yield X 90%
- Actual Revenue = National MYA cash price X Actual state yield per planted acre (that year).

ACRE vs. CCP



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Source: ISU Extension Economics, November 2008.

ACRE Set-up for Iowa Corn 2009 Sign-up Decision

Year	Yield per Planted Acre (bu./acre)	Year	National Average Price (\$/bu.)
2004	176.7	2007-08	4.20
2005	168.9	2008-09	4.75*
2006	162.7		
2007	166.8	Average	\$4.47 ½ *
2008	161.9*		
Olympic Average	166.1		

*The 2008 yield and price are forecasts. Prices are as of Oct. 28th.

So the expected state yield would be 166.1 bushels per acre and the ACRE price guarantee would be \$4.47½ per bushel.

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Source: ISU Extension Economics, October 2008.

State & Farm Revenue Guarantees

- **State Revenue Guarantee**
 - 166.1 bu/A (most recent 5 years – Olympic Average)
 - X \$4.47½ /bu (forecast)
 - = \$743/A Gross Revenue (estimated)
 - X 90%
 - = \$669/A State Revenue Guarantee for 2009 (estimated)

- **Farm Revenue Guarantee**
 - 170 bu/A (example only) Last 5-year Olympic Average – by FSA Farm Serial Number)
 - X \$4.47 ½ /bu (forecast)
 - = \$761/A Gross Revenue (estimated)
 - + \$24/A Crop Insurance Premium Paid (estimated)
 - = \$785/A Farm Revenue Guarantee for 2009 (estimated)

Determining 2009 ACRE Payment (Considers Both Triggers are Met)

Lesser of	State ACRE Revenue Guarantee	Minus	Actual State Revenue
or	State ACRE Revenue Guarantee	Times	25%

ACRE Payments are issued after October 1st of the year following harvest.

ACRE Participant Payment Limits are \$40,000 on Direct Payments (DPs) and reduced by the 20% DP. If enrolled in ACRE, then an Individual's Payment Limits are \$32,000 for DPs and \$73,000 for ACRE Payments or \$105,000 total.

Potential 2009 Iowa ACRE Payment

Assumptions: 5-yr. State Olympic Yield = 166.1 bu/A
5-yr. Farm Olympic Yield = 170 bu/A
2-yr. National Avg. Cash Price = \$4.47¹/₂ /bu
2009 State Revenue Guarantee = \$669/A (estimates)
2009 Farm Revenue Guarantee = \$785/A (estimates)

In 2009, State Yield = 150 bu/A and Farm Yield = 160 bu/A
The 2009-10 National Avg. Cash Price = \$4.00/bu
2009 Actual State Revenue = 150 bu/A X \$4.00/bu = \$600 (forecast)
2009 Actual Farm Revenue = 160 bu/A X \$4.00/bu = \$640 (forecast)

Example Only

Since both 2009 the State and Farm Actual Revenue are below the Guarantees, an ACRE Payment is made.

\$669/A State Guarantee - \$600/A Actual State Revenue
= \$69/A X (170 bu/A /166.1 bu/A) X 83.3% = \$59/A Payment

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Source: ISU Extension Economics, October 2008.

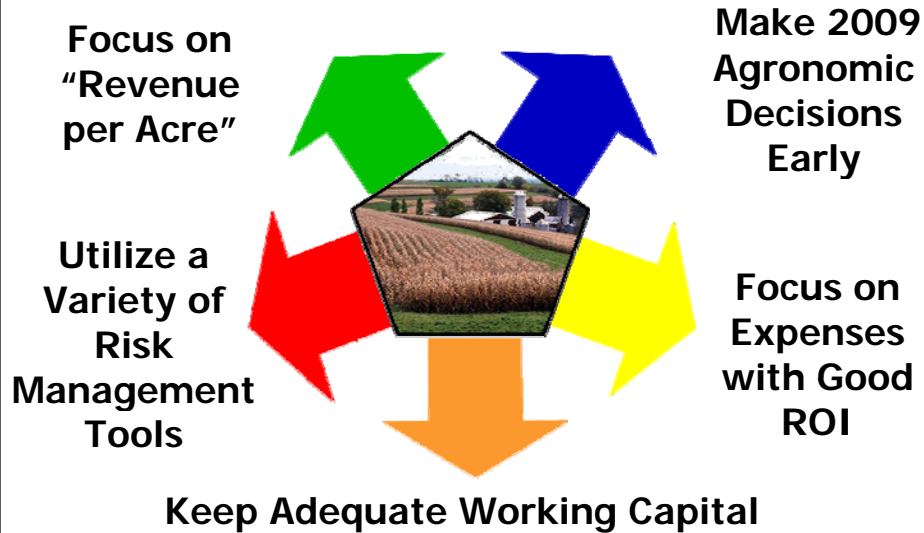
ACRE Beyond 2009

- Revenue Guarantee is updated each year through 2012 using the same rules:
 - 5-year Olympic Average Yields (most recent years)
 - 2-years of National (MYA) Cash Prices
- Revenue Guarantees can not change by more than 10% (up or down) from year to year:
 - So for example the 2009 State Revenue Guarantee is **\$669** , then the 2010 ACRE Revenue Guarantee must be between **\$602** and **\$736**.

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Source: ISU Extension Economics, October 2008.

5 Strategies for Managing Crop Risks



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

5 Crop Risk Management Web Sites

- **Ag Decision Maker – ISU Extension Economics**
(Spreadsheets - Decision Tools)
www.extension.iastate.edu/agdm
- **Farm Doc – U of IL Extension Economics**
www.farmdoc.uiuc.edu
- **Center for Farm Financial Management – U of MN**
www.cffm.umn.edu
- **Center for Ag & Rural Development**
www.card.iastate.edu
- **Crop Risk Management – ISU Polk County**
(Marketing, Farm Program & Crop Insurance: Updates/Newsletters/Webcasts)
www.extension.iastate.edu/polk/farmmanagement



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