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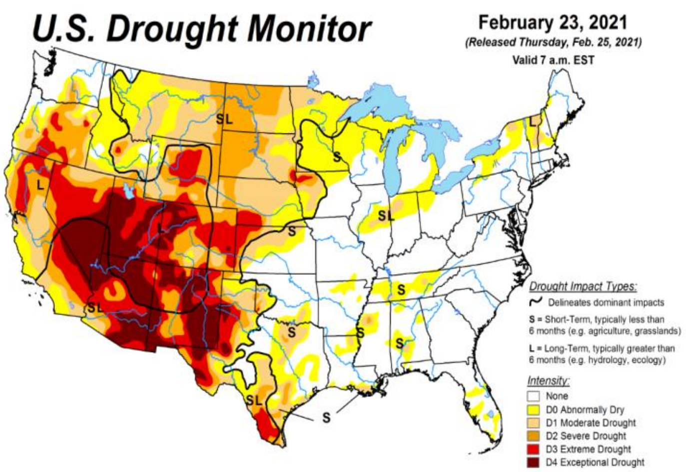
Crop Marketing STRATEGIES

Leveraging Revenue Protection Crop Insurance to Manage Risk

Widespread U.S. drought conditions, especially for the western and northern portions of the Corn Belt should persist heading into the early spring months. This production uncertainty should help hold new crop corn and soybean futures prices at high levels and provide pre-harvest marketing opportunities for those that purchase the Revenue Protection (RP) crop insurance product.



Source: www.droughtmonitor.unl.edu Feb. 23, 2021

Annually during the month of February, the simple average of new crop December corn and November soybean futures price closes determine the revenue guarantee for RP crop insurance. This final price, in addition to a volatility factor for the underlying futures options contracts the last 5 days of February, are used to determine the premium to be paid for the multi-peril crop insurance products. This premium does not have to be paid until late September. It is up to the insured farmer to communicate with their crop insurance agent on or prior to March 15th regarding any change in crop insurance products or coverage.

2021 Crop Insurance Revenue Guarantee

New crop futures prices have remained relatively high all of February. As of late February, the simple average price for December '21 corn futures appear to be around $4.57 per bu. This average price could vary by perhaps $.01 per bushel and determine the final spring projected price which will be announced approximately March 1 by the USDA Risk Management Agency (RMA).

December '21 Corn Futures

Source: www.cmegroup.com February 18, 2021

For 2021, this should be the highest projected price in 7 years. Along with a relatively high volatility factor for corn, thought to be around .23, expect premiums to jump substantially for the same product and same level of coverage as was elected in 2020.

The example calculation uses a 190 bu/A Actual Production History (APH) for corn with an 80% level of coverage. That coverage can vary by crop by county and could range from 65% to 85% in 5% increments. Farmer paid premiums vary by crop, county, risk level of the farm, APH and unit structure (basic, optional or enterprise).

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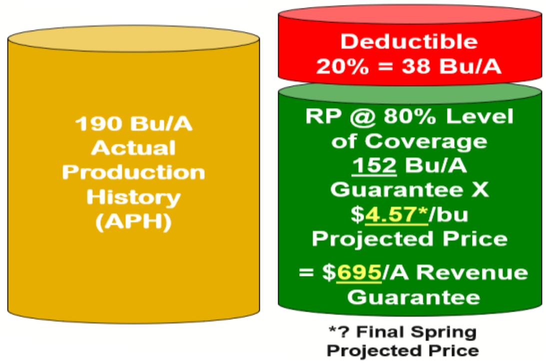
Calculating the Revenue Guarantee



Source: www.rma.usda.gov February 18, 2021

Revenue Protection (RP) crop insurance can mitigate much of the 2021 crop revenue risk that a farmer might face. That $695/A Revenue Guarantee is likely higher than the actual cost of production for most Iowa farms. The farmer may want to adjust their level of coverage to at least cover their expected overall crop costs.

Selling Your Insurance Bushels

The RP product guarantees revenue (both yield and price). The guaranteed price is calculated using the higher of the spring projected price or the harvest price (determined in the month of October). Many farmers will leverage this RP product to pre-harvest market a portion of their insured bushels for delivery. Marketing tools will likely include a mix of forward cash and/or hedge-to-arrive (HTA) contracts. Both contracts require the delivery of bushels, as the merchandiser manages the futures price risk. Any shortfall in bushels at harvest will be offset with the use of the harvest price, should it be higher than spring projected price.

Soybean Futures Prices

As of late February, the simple average price in February for November '21 soybean futures appear to be around $11,83 per bu. This price could vary by perhaps $.02 per bushel. This spring projected price along with the volatility factor estimated at 20 will keep premiums much higher when compared to last year.

November '21 Soybean Futures

Source: www.cmegroup.com February 18, 2021

Expect some "sticker shock" if you are comparing crop insurance premiums to 2020. Remember, the government is paying roughly 50% of more of your actual farmer paid premium.

Conclusion

For the 2021 growing season, expect not only higher yield risks due to extremely dry conditions, but also revenue risk. New crop futures prices are trading at their highest winter levels in 7 years. To manage this revenue risk, most farmers will purchase Revenue Protection (RP) crop insurance. It has proven over the past 20 years to be great risk management tool and can also be used to pre-harvest market a portion of you guaranteed bushels for delivery.

Your 2021 revenue guarantees in addition to premiums will be much higher as compared to 2020. In addition to the higher spring projected prices, the higher volatility factors will increase the premiums for most all crop insurance products.

It is up to the insured farmer to communicate with their crop insurance agent on or prior to March 15th regarding any changes in crop insurance products or coverage. Most agents are working remotely, so do a good job of communicating with them and document what product(s) and level of coverage you elected.

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