NAGEL CROP INSURANCE

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Nagel's Notes

Timely Crop Production, Insurance & Marketing tips

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The only grain merchant in the Mid-Atlantic who sells crop insurance integrated with marketing strategies that equip the farmer with increased market knowledge and improved profitability.

Crop Insurance / Agronomy

It's that time of year again. . . . taxes, crop planning, nutrient management planning, crop insurance strategies, equipment purchases & repairs, meetings, budgets & marketing plans, winter vacations and conferences. This year, we need to add to the list: another round of ARC County/PLC decisions.

The ARC CO/PLC decisions are like those we did in 2015, where you decide which subsidy program works best for you on corn, soybeans, wheat and barley and other crops on each farm that you have. This is also an opportunity to update your farm yields for these crops. There are several resources to help you make your ARC CO/PLC decision and I will list a link to my favorite further down.

First of all, let's talk about how these subsidy payments are determined:

In a very broad-brush terminology, **ARC CO** is an agricultural revenue coverage based on county revenue for each crop and is paid on your farm's base acres for each crop. What happens on your farm is irrelevant to the amount you get paid; you don't even have to plant the crop to get paid for it. In a big, long equation, county revenue is determined based on crop yield and marketing year price and then compared to a baseline revenue. If the county revenue determination is below the baseline revenue, then a payment is made at a specified percentage of the difference.

Price Loss Coverage, or PLC, is based on your farm's average yields and your base acres and the target price for the crop compared to the marketing year average price. If the marketing year average price is below the target price, a payment is generated at a percentage multiplied by the base acres and farm yield.

What you need to do:

- **Update your farm yields,** using the yields of 2013 through 2017. If you remember, we had a very good stretch of high yielding crops during those years. Your crop insurance yield averages are proof of your yields, so you can get a report from your crop insurance agent with the average yields during those years for each crop on each farm.
- **Base acres:** there is nothing that can be changed in regard to base acres of crops on a farm. These were determined many years ago and will not change for the duration of this farm bill. Therefore, you may have crop base acres for crops you no longer grow, or no base acres for crops that you do grow now. It does not matter. You will get paid based on crop base acres.
- **Decide ARC CO or PLC** for each farm and the crops you have base acres for. First need to meet with FSA and get a report for each of your farms that will tell you base acres and yields. Update your yields if you can, then use various tools to determine the best program for each farm and crop.

https://farmdoc.illinois.edu/2018-farm-bill is a great resource to use to evaluate your program decision. You need to register, which is free. There are two evaluating tools at this website to use. Call me if you'd like to discuss any part of this decision-making process!

Production reporting- Production reporting for corn, soybeans and vegetables is due by the end of April, so get them to your agent ASAP.

Crop Insurance Strategies for 2020: Now is the time to strategize your coverage levels and unit structure. The strategy you had for 2020 might have worked well for you or it may need to be re-adjusted to meet your needs. My first suggestion is to roughly map out where you will have your crops planted this year. Geographic distribution is a key factor in making a sound decision. There are many more things to consider: irrigation, adjacent counties, soil types and rainfall patterns. Give me a call and we can discuss all of these factors and let me advise you of some of your many options to consider. There are countless combinations of coverage types and levels. We don't have a "One size fits all" approach. We simply approach all of this differently!

Marketing your 2020 and 2021 crop could have started months ago. We advise our clients to integrate your crop insurance with your marketing plans and leverage your crop guarantees. Call one of us to see how we do that.

Grain Marketing

From Pirate to Trade Partner?

After some significant strength in the soybean and wheat markets over the past few months, speculative traders and optimistic farmers were hoping that the Phase-One Trade Deal would lift markets with more assurance and clarity on the road ahead.

China says that it will boost U.S. ag purchases in 2020 by 52% over 2017, but it also says that they will buy based on market conditions, while not disrupting trade with other suppliers. This was a wet blanket on the markets that flushed out those bullish traders and farmers who hadn't already throw in the towel after the January USDA report a few days prior.

We knew that China was not going to jump in with both feet and start buying regardless of price, but we were hoping for a little more commitment. I believe that most people have realistic expectations and are hoping for a reliable and honest trade partner. For centuries, China's trade tactics have been closer to that of a pirate than a trade partner. Will they change? Well – how many pirates exist in the world today? I know, it's a silly question, but it's true – If China wants to continue on their path to power, they cannot do so without strong trade relationships around globe. In today's increasingly transparent world, where information spreads around the world within seconds, the cost of lying and stealing will outweigh the short-term benefit.

I believe that the Phase-One Trade Deal is most likely to provide support during market weakness, which is a great thing. Yes, we'd all love $12 beans and $6 corn, but if that happened, demand destruction would kick in, making us even more dependent on China.

In other Ag market news – Ag Secretary Sonny Perdue has said that he expects farmers to receive the third and final tranche of trade-related aid payments. Also, on Thursday the U.S. Senate approved the U.S.-Mexico-Canada (USMCA) trade agreement that replaces NAFTA. Now it goes over to President Trump to be signed into law. A lot of good things happening on the trade front, but it seems like the market has been fooled too many times and wants to wait and trade the actual shipments of grain.

On January 17th the March corn contract closed at $3.89 ¼. The December contract closed at $4.02 ¾ and will likely trade either side of $4 over the next couple months. I like getting a structured contract working now, helping farmers to get some bushels selling above the market, at their price targets. Hopefully the market will hit those price targets during a weather scare rally, but I can assure you that we will not get much of a planting delay rally.

On January 17th the March soybean contract closed at $9.29 ¾ and the November contract closed at $9.56 ½. The soybean market will need to fight for acres over the next couple months as analysts expect corn to pick up significant acres next year.

On January 17th the March wheat contract closed at $5.70 ½ and the July 2020 wheat contract closed at $5.70 ½. (yes, you read that correctly – the March contract and the July are equal – zero spread!) U.S. Winter wheat plantings for the new crop will hit a 111-year low, including record low HRW acres. Russia's agriculture ministry has proposed setting an export quota of 20 million metric tons of grain for the first half of 2020, which has supported prices. We always talk about the burdensome supply of wheat domestically and globally. I expect that the lack of spread in the market and recent $1 rally will begin to break supplies loose, adding selling pressure to the market. Dollar weakness resulting in export business this year could be the game changer, but is not my base case scenario. One of the trades that I have the most conviction in right now is using a structured contract to price 2021 wheat. We did a similar trade for 2020 wheat over year ago, that has been among one of our best performers.

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