



www.agmanager.info
abarnaby@agecon.ksu.edu
(785) 532.1515 (phone)
(785) 532.6925 (fax)

G.A. "Art" Barnaby Jr.

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Using a Matrix, RMA Could Publish CRC High/Low Factors Immediately¹

RMA sets the CRC High Low Factors to generate premiums similar to RA. Currently the volatility value is between 0.19 and 0.20 and will depend on the final two days and rounding rules. I Calculated the CRC High/Low factors that will give similar premiums with RA-HPO at the 65% coverage level using the RMA reference yield and the current projected price election for 2007. A volatility of 0.19 generated a CRC High/Low factor of 0.52 and a volatility of 0.20 generated a CRC High/Low factor of 0.55 (table 1). Problem solved right?

If the APH yield in the same county is 10 bushels higher a volatility of 0.19 generated a CRC High/Low factor of 0.475 and a volatility of 0.20 generated a CRC High/Low factor of 0.505. In 2004 the CRC High/Low factor was 0.310 and 2005 the CRC High/Low factor was 0.377 but the volatility value was the same in both years, 0.19. However the 2004 projected price on KC wheat was \$2.40 and in 2005 the projected price was \$3.56.

So the yield, price, and volatility all affect the CRC High/Low factors. Until RMA makes the procedure transparent it is not possible to forecast the High/Low factors with any level of confidence. However, regardless of the High/Low factors published by RMA, just by entering a reasonable High/Low factor farmers will discover there is variation in which product is cheaper, CRC or RA-HPO.

Insurance agents would like to have the High/Low factors ASAP because there will be clients offered lower premiums under one of the plans and they will receive nearly the same coverage.

¹Prepared by G.A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, September 13, 2006, Phone 785-532-1515, e-mail – barnaby@ksu.edu.

In addition on some units one product may be less expensive while on other units the same product is more expensive, so the preferred product will be the one that generates the lowest premium for whole farm adjusted for crop share. Growers electing the enterprise unit will have a clear preference for one of the products because of the difference in the enterprise definition.

Most agents with the use of their company supplied computer software can easily make this premium comparison but they need the High/Low factors first. Even if the High/Low factors are published on Friday, that will still leave very few days to run the analysis for all of their clients.

A Possible Immediate Solution for Corn. On the spring crops RMA could set the High/Low Factors in the middle of February based on a range of prices and volatility values. For example on wheat RMA could have publish a matrix of volatility and projected prices on September 1 (table 2). Once the final projected price and volatility values are set then one would only need to go the published matrix to get the High/Low factor for that year.

The advantage is the projected price and volatility values can be forecasted with some level of confidence. This matrix would be a great benefit to farmers who would like to have more time to compare CRC and RA premiums before making a decision. Assuming the setting of CRC High/Low factors is a well defined mathematical procedure and with the use of computers, this matrix would be easy to generate by RMA and published by February 15.

Table 1. Calculating High/Low Factors for CRC that Will Generate the RA Equivalent Premium at 65% Coverage

	APH	Volatility	CRC High/Low	Volatility	CRC High/Low
RMA Reference yield	33	0.20	0.550	0.19	0.520
Example yield	43	0.20	0.505	0.19	0.475

Table 2. Matrix of CRC High/Low Factors based on a Range of Volatility and Projected Prices

Volatility	\$4.50	\$4.51	\$4.52	\$4.53	\$4.54
0.18	??	??	??	??	??
0.19	??	High/Low Factors			??
0.20	??	??	??	??	??
0.21	??	??	??	??	??