



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

## G.A. "Art" Barnaby Jr.

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### Last Call<sup>1</sup>

Recipient

Many of you (not many farmers) want to agree about my recent emails.

1. The RA-HPO has a yield adjusted \$5.56 Asian call coverage over and above CRC coverage. With out any yield adjustment the call would be worth about 6 cents on the CBOT. This is about the price I would expect to pay for a \$5.50 December CBOT corn call. But remember one must have a yield loss to collect on HPO so after the premium adjustment for yield risk, this means with a 150 bushel guarantee the additional premium for RA-HPO should be about \$2.00-\$2.50 per acre higher than CRC (APH will need to be over 180 for most coverages). In higher risk growing regions the number will be on the higher end. After subsidy is applied (changes with coverage level) it would cut the premium in about half (\$1.00 to \$1.25). However, if you buy CRC and the \$5.50 CBOT call that is not adjusted for yield, then the cost is about \$9 (6 cents times 150 bushels). **One alternative is to buy the call on only half of the guaranteed bushels, betting you will produce at least one third of the crop on an enterprise basis. In the Corn Belt, I would only buy the \$5.50 call on 40% of the expected county yield for GRIP-HRO with 90% coverage, because it is very unlikely that county yields will decline by more than 50%.** In Kansas it is possible to have county yields approaching zero on wheat and grain sorghum. Unlikely on corn because the riskier counties have most of their corn production under irrigation.

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<sup>1</sup>Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, January 10, 2005, Phone 785-532-1515, e-mail – [abarnaby@agecon.ksu.edu](mailto:abarnaby@agecon.ksu.edu).

2. It will take corn yield losses in the Corn Belt to drive corn prices above \$5.56. However, if you believe that demand is very elastic, that gasoline and ethanol prices will decline, the USA will import corn and/or ethanol, large numbers of ethanol plants will shut down, Congress will eliminate the ethanol mandate and/or ethanol subsidies; then I would agree with some or all of the above conditions, prices will not exceed \$5.56. Your call. I am still recommending to farmers who buy GRIP or RA that they add the harvest price coverage, because I think there is a lot of upside price risk.
3. If we get normal weather in the Corn Belt and plant over 90 million acres of corn, then price will likely drift lower (USDA planting report on March 30). But under this scenario most corn farmers don't have crop insurance claims anyway so the HPO would expire worthless. I don't see many scenarios that would cause the bottom to fall out of the corn market this year. Maybe next year.
4. Some farms will have a crop loss this year. I just don't know where or when this will happen but some farmers will be real sorry they cut or dropped their insurance coverage. If crop insurance made sense a year ago then it makes sense today, in spite of the higher per acre premium cost. Premiums have increased because the value of the asset (growing corn) has nearly doubled in value. Remember, farmers in most counties have a lot more choice to find a product that fits; APH (MPCI), CRC, RA-HPO, RA, GRP, GRIP, GRIP-HRO and Adjusted Gross Revenue.
5. I may have time later to post the supply-demand numbers that is reason for my suggesting Corn Belt drought would generate substantially higher prices and the recommendation for purchasing the harvest price option if it is affordable. The \$5.50 CBOT call plus CRC is an alternative or self-insure and carry the risk of prices exceeding \$5.56. Without crop losses the market will not exceed \$5.56, but then most of the HPO contracts will expire worthless anyway because there would be few insurance claims.

ART

### **More emails**

More emails responses to my AgManger posting on RA versus CRC, with the names and locations removed to protect the innocent. I think these questions may fit others. Also we are on top of sales closing. I believe the vast majority of crop insurance agents are providing the very best advice for their clients and they care about farmers. If you don't trust your agent then you need to change. However, because farmers have different ability to carry risk, differences in their APH's, and marketing program means that the same insurance product does not fit everyone. So when farmers compare notes the advice may appear to vary without knowing all of the details. A good agent will help give you the information on the product that best fits your program.

ART

*Art,*

*Agree with your analysis; however, remember:*

1. *the only time \$1.50 cap is a "timing factor" on when farm*

*operation committed delivery. on minimum price contracts settled off a put or a production agreement it is not an issue.*

*2. why anyone would want to commit bushels today based on what you describe below is beyond me. if the scenario you describe below occurs basis will most likely invert every one with contacted bushels will "bitch" anyway.*

*Marketing expert.*

**Art's response.**

My simple minded method is that RA-HPO insured farmers will either have bushels at harvest time or enough dollars replace the lost bushels. If production doesn't matter why bother to farm? The point is once a farmer has the inventory guaranteed, then the risk of pre-harvest marketing is nearly the same as post harvest marketing.

It is not unreasonable with these tight corn stocks to expect there might be a corn price spike this summer on any weather scare. Will farmers insured under CRC or GRIP (with the \$5.56 cap) be willing to sell? Insured RA-HPO corn growers are in a fully hedged position even if prices go higher. I will leave it to you marketing experts to figure out how to sell that guaranteed inventory.

A complicating factor is the \$5.56 Asian call that is included in the RA-HPO contract but not in the CRC or GRIP-HRO contract is over priced for some growers (don't send me any cards and letters on this comment because I am right). The premium difference should only be about \$1 to \$1.50 per acre higher for RA-HPO premium than the CRC premium.

ART

*Art,*

*I have 75% coverage. I know that 70% is the highest subsidized level. I know my premium increase on irrigated corn in Thomas county Kansas for 70% to 75% is from \$15 to 22%. The increase to 80% is an additional \$ 5. The coverage per acre in this example is \$397 @70% to \$426@75% to \$455@80%. Given the increase in inputs it seems like I should consider raising my coverage to at least 80%. Sorry about the late question. I know we are about out of time. Thanks.*

Kansas corn grower

**Art's response.**

Because of the higher value of the corn crop, it makes more sense to me to increase coverage rather than cutting the coverage. So I don't disagree with your evaluation. One alternative is to add private hail to your 75% coverage but there are other perils besides hail on irrigated corn.

ART

*Art,*

*We are more simple minded that you....we believe in either having bushels at harvest of dollars for the bushels we do not have in our bank account ....not the grain buyers account; consequently, we simply buy highest yield protection out there...adjust risk transfer price and premium to cover cost of production...hedge or sell 100% of APH, cover with an deep out of money call options and never look back. It has worked well for years. This year its even simpler....buy enterprise units at 70%, which is essentially a free call, and cover deductible with calls.*

*.....aside: Did you watch the Cats last night??*

*Marketing expert.*

**Art's response.**

Yes, and we are lucking to still be in the NIT. I have moved on. This is a football school (a lot K-State'ers will disagree with that statement) and I am ready to make the trip to Auburn. Coach Bob Huggins may just turn KSU in to a basketball school too. That is okay we can find the money to build a trophy case for two national champions! But I just love college football and can't wait for the spring game. Go Cats, Beat Auburn!

Again I will leave the marketing strategies to the marketing advisers and farmers.

ART

*Art,*

*I can well imagine the chagrin over providing a different coverage and lower cost option to producers. It means less premium.*

*The "Last Call" letter provides sound advice, and if not anything else other viable options of insuring 2007 Corn production.*

*Well timed and stated.*

*Per your second \* paragraph - that is a lot to think about taking place. Possibly more than a Big 12 championship for Prince and team?*

*Thanks again for the sage advice,*

Marketing expert

**Art's response.**

The really good agents provide sound crop insurance advice, regardless of the commission.  
If you take care of the customer the commissions will take care of themselves.

I am buying plane tickets for Auburn. I am ready for football! Go Cats!  
Again I will leave the marketing strategies to the marketing advisers and farmers.

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