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Updated MYA Prices for Setting ACRE Guarantees¹

The KSU estimated 2008/09 Marketing Year Average (MYA) price is more than 80% complete for wheat because the wheat marketing year starts June 1 through May 31 while the marketing year for the other crops is September 1 through August 31. Therefore, the 2008/09 MYA price for corn, grain sorghum and soybeans is about 70% complete (table 1). The 2008/09 MYA price is used to set the 2009 ACRE guarantee and to settle 2008 SURE claims. A higher 2008/09 MYA price will increase the ACRE guarantee but reduce payments under SURE for 2008 revenue losses. Farmers may participate in both ACRE and SURE.

Currently the model is just using the single new crop futures price to reflect the expected price for the 2009/10 MYA price that will settle any ACRE/SURE claims. The NASS price is an annual price weighted by sales volume. New crop futures are a spot price. While futures are normally higher in most markets (but not all), cash prices tend to increase after harvest to reflect storage. The estimated monthly prices will need to reflect the deferred months too, that normally show a return to storage. Evaluating the historical monthly corn NASS prices have been about 90% of the nearby monthly average futures prices. However, the recent basis has been about 80% but this was with historically high prices (over \$6 for corn on the Board).

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The model is assuming average state yield for spring planted crops but by August 14 we will have a good estimate of the winter wheat yields in TX, OK, and KS. Also, farmers will have some information on their ability to meet the farm benchmark that is the second trigger on ACRE payments. If farmers have a bumper crop then it is unlikely they will qualify for the ACRE payment if the state triggers because their revenue will be greater than the benchmark.

There is some concern the **KSU NASS corn price estimate is too high**. The KSU estimated MYA price continues to be higher than the USDA estimates. If the KSU estimate is closer to the final NASS weighted national average (MYA) price then the ACRE guarantee will be higher. A higher ACRE guarantee will increase the odds of an ACRE payment and make it more attractive to farmers.

Assuming the negative price-yield correlation does not equal a negative -1.0 then clearly there is a chance that low yields will trigger ACRE payments. About the highest negative price-yield correlation anyone could expect is about a -0.50, and Iowa corn is likely to generate the largest negative price yield correlation.

Because the ACRE is being argued as risk management, then “premium cost” should change with the risk of a claim but the premium cost is the same under all conditions, 20% of farmers’ direct payments. This is further complicated with the secondary trigger that requires the individual farm revenue to be below the farm’s individual farm level benchmark to collect any ACRE payment. For example the “premium cost” should be lower if ACRE is out of the money (the strike price is lower than the expected harvest price at signup). Premium should also be lower in large states like Iowa with negative price yield correlation and less correlation between farm revenue and state revenue that is necessary to meet the second trigger. On the other hand premiums should be higher in Delaware where ACRE is nearly a “county” based Group Revenue Income Protection (GRIP) contract with no price yield correlation. Also the Delaware corn production area is small enough that any drought that affects the state revenue will also likely affect the farm level yields and farmers would meet the benchmark trigger too. This rating principle would apply to other states too, for example grain sorghum in New Mexico, where production is concentrated in a few counties.

There is no reason to signup for ACRE until mid to late July so there is still time to do more analysis. The market could change and Kansas could lose the wheat crop to freeze by that date. Therefore there is little reason to signup until ones winter wheat is harvested and spring crops are well in their grain filling stage.

Table 1. Estimated Weighted National Average Price and Projected % ACRE Price loss and % SURE Price Loss (04/01/09)

Crop	Wheat	Corn	Grain Sorghum	Soy-beans	
Month	Month				
Jun	7.62	Sep	5.02	4.60	10.70
Jul	7.16	Oct	4.37	3.96	9.94
Aug	7.64	Nov	4.26	3.68	9.38
Sep	7.43	Dec	4.05	2.87	8.97
Oct	6.67	Jan	4.36	3.27	9.97
Nov	6.28	Feb	3.87	2.83	9.55
Dec	5.91	Mar	3.96	3.10	9.13
Jan	5.90				
Feb	5.79				
Mar	5.84				
FSA Est. 2008/09 NASS Price	6.80	4.10	3.20	9.35	
Current Est. 2008/09 NASS Price²	\$6.78	\$4.22	\$3.39	\$9.66	
% of 08-09 NASS Price Settled ³	88%	63%	72%	70%	
ACRE					
07-08 NASS Published Price	6.48	4.20	4.08	10.10	
2009 ACRE Strike Price	6.63	4.21	3.74	9.88	
2009 ACRE Strike Price X 90%⁴	5.97	3.79	3.36	8.89	
Maximum ACRE Price⁵	4.48	2.84	2.52	6.67	
Current Futures New Crop Price ⁶	6.14	4.37	3.54	9.12	
\$ ACRE in (out) of the Money	-\$0.17	-\$0.58	-\$0.18	-\$0.23	
% ACRE in (out) of the Money	(2.59%)	(13.83%)	(4.88%)	(2.31%)	
SURE					
2008 RA & SURE Strike	8.60	5.40	5.06	13.36	
2008 RA Harvest Price	8.60	3.74	3.87	9.22	
2008 NASS SURE Claim Price	6.78	4.22	3.39	9.66	
\$ Price Loss in SURE Claim	\$1.82	\$1.18	\$1.67	\$3.70	
% Price Loss in SURE Claim	21%	22%	33%	28%	

¹NASS Published Prices.

²The NASS 2008-09 marketing year is a weighted Marketing Year Average (MYA) price. The 2008-09 MYA price is averaged with the 2007-08 MYA price to set the strike price for the 2009 ACRE program. Also the 2008-09 MYA price is used to settle claims on the 2008 SURE programs.

³The estimated 2008-09 MYA price is about 80% complete for wheat because the wheat marketing year starts June 1 through May 31 while the marketing year for the other crops is September 1 through August 31 therefore the 2008-09 MYA price for corn, grain sorghum and soybeans is about 50%-60% complete.

⁴The 2009/10 MYA price would need to fall below the strike price to trigger assuming the state yield is equal to the state olympic average yield.

⁵The maximum 2009/10 MYA price necessary to hit the 25% of coverage payment limit, that will eliminate additional ACRE payments. Prices below ACRE payment limit will need to fall below 70% times the loan rate because there is no counter cyclical payment. The maximum price will be lower for farmers over the \$73,000 payment limit.

⁶It is assumed the market traded futures prices for new crop delivery is the best current estimate of the price to settle ACRE claims.