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Consider spring and summer price rallies for selling insurance bushels

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In most years during March and April, weather uncertainty that influences new crop futures price focuses back on the Northern Hemisphere. That's where the majority of the world's corn and nearly one-half the soybeans are produced. Futures prices tend to become more volatile than those witnessed during the winter months.

Besides weather for early planting, attention will be on the USDA Prospective Planting Intentions report to be released on March 28, 2013. This will be the first glimpse of farmers' planting intentions drawn using scientific sampling methods. The final Acreage Report will not be released until June 28, 2013.

A rally in the new crop December corn futures price happens nearly every year in March and April. The December futures contract tends to move higher, and remains relatively high until at least mid-June when more is known about the planted acreage and yield prospects. New crop November soybean prices often rally in the late spring or early summer months. These higher new crop futures prices during the spring and early summer months are referred to as the Seasonals.

Determining your insurance bushels

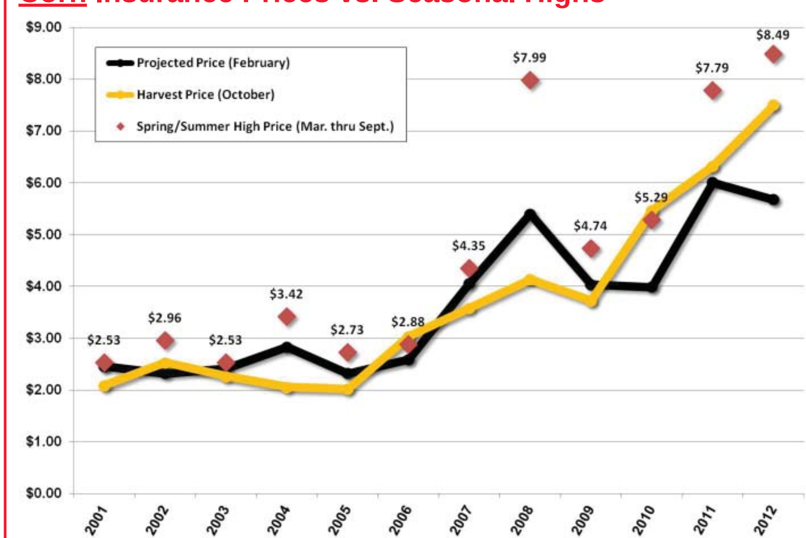
Because most Corn Belt farmers take Revenue Protection (RP) crop insurance, they have the ability to tie pre-harvest marketing of their insurance bushels for delivery. That's because RP guarantees a farm's Actual Production History (APH) times the level of coverage elected (65%, 70%, 75%, 80% and 85%).

These insurance bushels are guaranteed at the higher of two prices: the projected price determined in the month of February for the average December corn futures and November soybean futures. These prices are used to determine the revenue guarantee for each insured crop as well as the premium to be paid in the fall. The key to RP is that if the harvest price increases (October average for those same futures contracts) the revenue guarantee reflects the higher of these two prices. That's a real advantage if there's a shortfall of contracted insurance bushels because that higher harvest price will be reflected in the final indemnity payment.

Look at the line graph below that features 12 years (2001 to 2012) of historical corn price data. The darker colored line is the projected price and the lighter colored line is the harvest price. Only five of those 12 years, and in each of the last three years, is the harvest price higher than the projected price.

Overlaying these lines are diamonds with prices representing the December corn futures contract high each of those 12 years from March until September. This period of time is referred to as the spring/summer high price or the seasonal highs. Note that for all 12 years the December corn

Corn Insurance Prices vs. Seasonal Highs



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futures price high was above the projected price. Only the years of 2006 and 2010 did this high not exceed the harvest price.

The conclusion might be that new crop December futures price highs in the seven-month period of March to September provides an opportunity to make some sales of a portion of these insurance bushels. The highest December corn futures prices on the chart occurred on June 27, 2008, August 29, 2011, and August 10, 2012. In most years prior to 2008, this seasonal high for corn occurred in the months from March until June.

New crop pricing opportunities

Remember, with the use of Revenue Protection (RP) crop insurance both yield times price or revenue is guaranteed. These insurance bushels are guaranteed at the higher of two different futures price: the projected price or the harvest price. Combine this understanding of RP annually with the sale of guaranteed insurance bushels after March 1 and before harvest. March 1 is the date that projected prices are known, thus a pre-harvest sales objective could be established.

Since most years, new crop December corn and November soybean futures prices tend to rally in the spring and summer months, the ability exists with RP crop insurance to sell for delivery all or a portion of your insurance bushels. The goal in 2013 might be to sell some guaranteed bushels when futures prices are at least above these projected prices, which are $5.65/bu. for corn and $12.87/bu for soybeans.

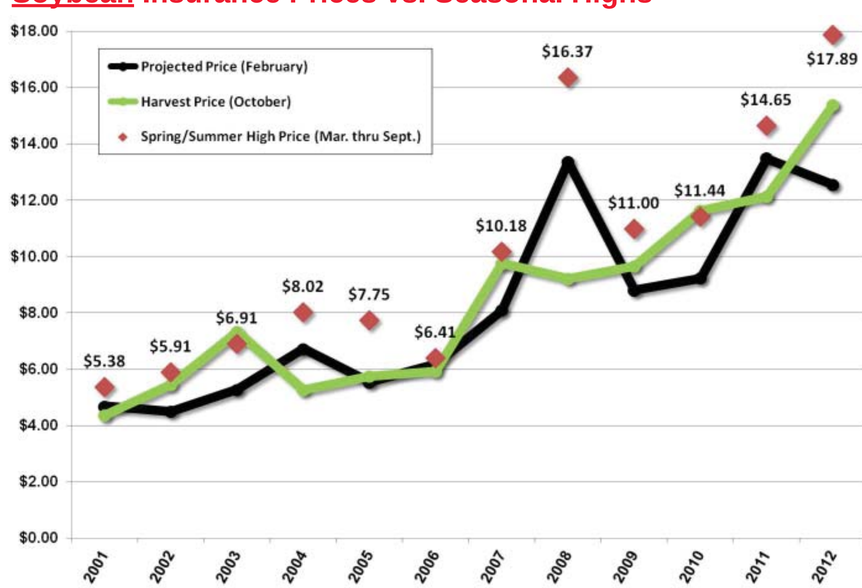
For corn and soybeans in 2013, many missed the opportunity to sell new crop bushels last August or September at high prices. A new goal might now be to sell a portion of your guaranteed insurance bushels in the spring and summer months. Cash sales can be made using forward cash or hedge-to-arrive (HTA) contracts. Both contracts require the delivery of a specific quality and quantity of bushels. The forward cash contract fixes both the futures price and the basis when the contract is initiated, thus the cash price for delivered bushels is known.

However the HTA contract leaves the basis open, but fixes the futures price. If a farmer thinks that the basis might improve prior to delivery, then an HTA contract is preferred. The farmer will still want to pay attention to the basis being offered for that delivery period. The basis should be set well in advance of delivery of these bushels. This involves discussing with your grain merchandiser plans for setting that basis on HTA contracts and the specifics for delivery of those bushels and cash settlement.

The line graph below features those same 12 years of historical soybean data. The darker colored line is the projected price each year since 2001. The lighter colored line is the harvest price for those same years. In six of those 12 years, and in three of the past five years, the harvest price is actually higher than the projected price.

Diamonds with prices overlay these lines and represent the November soybean futures contract high each of those 12 years from March until September. Note that for all 12 years the November soybean

Soybean Insurance Prices vs. Seasonal Highs



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futures price high was above the projected price. Only in the years of 2003 and 2010 did this seasonal high not exceed the harvest price.

Conclusion

The decision to take Revenue Protection (RP) crop insurance in 2013 now provides the ability to pre-harvest sell for delivery a portion of your guaranteed new crop corn or soybean bushels.

Selling these insurance bushels between March and September is often complimented by the seasonal highs occurring in those months. A goal in 2013 might be to sell some of these guaranteed bushels when futures prices are above the projected prices, which are $5.65/bu. for corn and $12.87/bu for soybeans.

Updates, continued from page 1

Internet Updates

The following decision tool has been updated on www.extension.iastate.edu/agdm.

Financing Stages for Start-up Businesses – C5-91 (2 pages)

Types and Sources of Financing for Start-up Businesses – C5-92 (4 pages)

Current Profitability

The following files and tools have been updated on www.extension.iastate.edu/agdm/info/outlook.html.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Iowa Cash Corn and Soybean Prices – A2-11

Season Average Price Calculator – A2-15

Ethanol Profitability – D1-10

Biodiesel Profitability – D1-15

Returns for Farrow-to-Finish – B1-30

Returns for Weaned Pigs – B1-33

Returns for Steer Calves – B1-35

Returns for Yearling Steers – B1-35

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