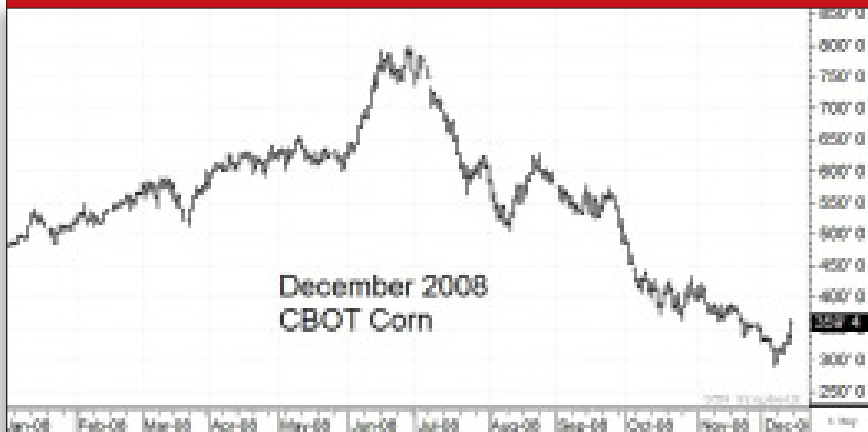


December 2008 CBOT Corn



In 2008, December corn futures dropped down \$1.66 from the February average to the fall average. This year with higher prices, prices could drop even further. A drop of over \$1.00 per bushel would take away most corn farmers' bottom line if they do not have hedges in place and crop insurance.

Creating A Marketing Plan For 2011

Here's how you can formulate an A+ plan.

Making crop insurance decisions and marketing decisions are a lot harder than they were five years ago when prices were a lot lower." This was the comment I got from a young lady at a meeting in central Missouri earlier this winter.

What happened when December 2011 corn futures rallied above \$5.70 and November 2011 soybean futures rallied above \$13 this winter?

For farmers, having more income and potential profits doesn't mean more joy – it means more anxiety. Farmers are watching cash rents and input expenses increase; with higher prices comes more risk. This makes creating a marketing plan and using all of the risk-management tools more important than ever.

If prices drop lower into the fall of 2011, you can have real operating losses. There

will be no LDP or increases in government payments to offset those losses.

I review the marketing plans that are sent to me by farmers. Someone who does not have the right plan will not just get an "F" for a grade. In this case, it's an "F" as in financial failure. This may sound harsh, but farming today is more high risk than ever.

Crop insurance is a very important part of your risk-management plan. By putting the right risk-management plan (which includes crop insurance) in place, you can reduce your risk, increase your bottom line, and reduce your anxiety level. And for farmers who have the right plan in the right states, they can even insure more bushels (the "A+" bushels).

Farmers with crop insurance can use their marketing plan to create a very profitable farm in 2011, even if prices move lower at harvest. Don't just think of it as crop

insurance. Today, it's the backbone of a price insurance plan.

This year the crop insurance terminology has changed. The crop revenue coverage (CRC) and revenue assurance (RA) policies are now called revenue protection (RP) policies. The average yield terminology (actual production history, or APH) is now called yield potential (YP).

The terminology may have changed, but my approach to managing risk is similar to what I have recommended to customers the last three years. I will suggest some minor changes you should consider with the new insurance products that are available in some states and the higher futures prices you are able to lock in.

3-Step Process

Here is my risk-management process.

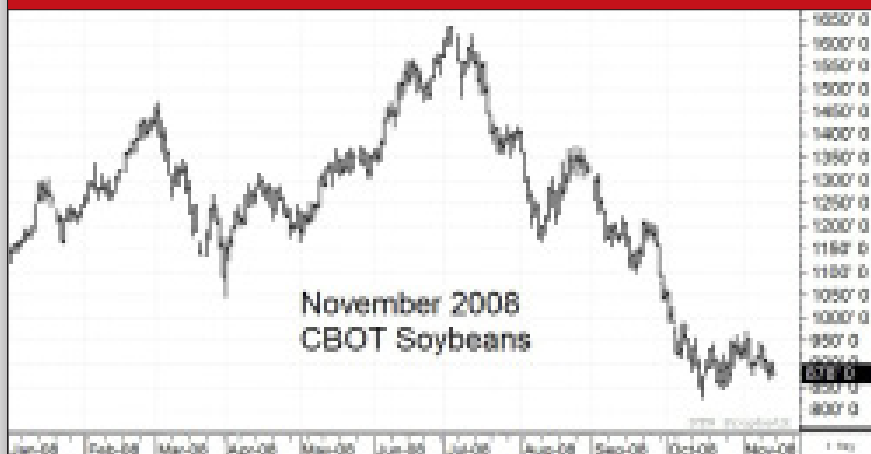
1 Buy the right RP policy for your farm. You will need to work with a professional who understands your farm and all the different alternatives you now have. Get in early and fill out the worksheets that are available. By the time you are reading this, you will know what the average price for the month of February is for December 2011 corn futures and November 2011 soybean futures. At these high price levels, a 10% change in coverage can raise your minimum revenue by \$50 per acre or more.

2 Put together a plan to get 60% to 100% of the insured bushels ("A" and "A+" bushels) hedged using hedges or hedge-to-arrive contracts.

3 Get put protection on the uninsured bushels. These are the "B" bushels.

Producers who buy the higher level of RP policies have a license to sell. You should get your insured ("A" and "A+") bushels hedged ahead to take full advantage of the crop insurance policies that you are purchasing. ➤

November 2008 CBOT Soybeans



In 2008, the November soybean futures dropped down \$4.14 from the February average to the harvest price. This year a similar drop with no crop insurance or hedges in place would take away your soybean profits.

Make Your Plan

Here's an example to illustrate how you can compute the "A" bushels (insured bushels), "B" bushels (noninsured bushels), and the "A+" bushels (the BYA bushels) on your farm.

- Production: 1,000 acres of corn
- Yield Expected: 200 bushels
- Total Production: 200,000 bushels
- YP: 150 bushels per acre
- YP Bushels: 150,000 bushels
- Insurance: 85% RP
- Insured "A" Bushels: 1,000 acres × 150 bushels (YP) × 85% = 127,500 "A" bushels
- Insured "A+" Bushels: 1,000 acres × 150 bushels (YP) × 8.5% = 12,750 "A+" bushels
- The balance are "B" Bushels: 200,000 – 140,250 = 59,750 "B" bushels

(Note: "A+" bushels would only apply to corn bushels in Minnesota and Iowa, and to soybean bushels in Minnesota, Iowa, Illinois, and Indiana in 2011.)

Now that you have computed the "A", "B", and "A+" bushels on your farm, see how three different price scenarios could impact your income in 2011.

In these scenarios, a final yield that is equal to your YP on your farm is used. For corn, I am using 150 bushels per acre; for soybeans, I am using 50 bushels per acre. I am assuming you are buying the 85% RP policy on corn and soybeans, and if you are in a state that has it available, you are buying the additional 10% BYA policy to lock in an additional 10% coverage on your corn and soybeans.

- **Scenario 1:** I am using a harvest price of December corn at \$5.80 and November soybeans at \$13.20. With a 40¢ basis, your crop revenue for corn would be at \$810 per acre and for soybeans at \$640 per acre. You would not qualify for any RP payments.

- **Scenario 2:** I am increasing the harvest price on December corn to \$7.20 and the November soybean price to \$16.50. Assuming a 40¢ basis, this would generate \$1,020 revenue per acre for corn and \$805 revenue per acre for soybeans. You would not qualify for any RP payments.

- **Scenario 3:** I am dropping the harvest price on December corn down to \$4.40 and the November soybeans down to \$10. You would have \$600 revenue from your corn and \$480 in revenue for your

soybeans. Your regular RP insurance policy would pay you approximately \$139 per acre on your corn and \$81 on your soybeans. If you had the BYA insurance, you would get a payment of \$14 per acre on your corn and \$8 per acre on your soybeans on the "A+" bushels you had insured. The gain on your corn hedge would be \$139 per acre; for soybeans it would project out to be \$149 per acre. The total revenue for corn would be approximately \$892; for soybeans it would be \$718 per acre.

(Note: I have made several assumptions in the examples that may be representative of what would occur on your farm. The illustrations are examples only. Your actual results may be different depending on the state you farm in, your YP, your fall basis, your final yield, and what level of RP policies you purchase.)

To get a feel for what has occurred in the past, review the charts on the previous page and this page.

The harvest price level on corn was \$1.66 below the February average, and the harvest price on soybeans was \$4.14 below the February average. It has happened before and it may happen again. But with a good plan, you can be prepared.

I encourage you to attend an educational seminar or webinar on this important topic and to fill out the worksheets that are available to help you decide which alternative is right for your farm. □

Al Kluis

Al Kluis has been a commodity trader and adviser since 1974. Join his free webinar on Tuesday, March 8, at 8:00 p.m. CDT for updated strategy and merchandising recommendations.

To register, go to www.alkluis.com.

**Kluis Commodities
901 - 12 Oaks Center Drive, Suite 907
Wayzata, MN 55391
888/345-2855 | alkluis.com | al@alkluis.com**

