Diversified Crop Insurance Services

Revenue Management Update

Friday, March 8, 2019

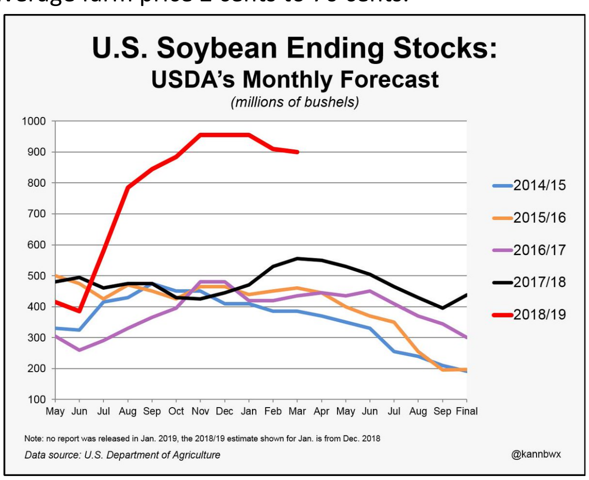
March Reports Mostly Non-Event

Last Friday, USDA released its March WASDE report. It's good that USDA is now caught up on its reporting. But as it turns out we weren't missing much. The changes to the balance sheets were mostly housekeeping changes, and none were a reaction to the ongoing trade war with China.

Wheat – The only significant change in domestic wheat demand was another cut in exports of 35 million bushels, taking ending stocks up to 1.055 billion bushels. World wheat stocks were raised 3.0 mmt due to lower world usage. USDA left the average farm price unchanged at $5.15.

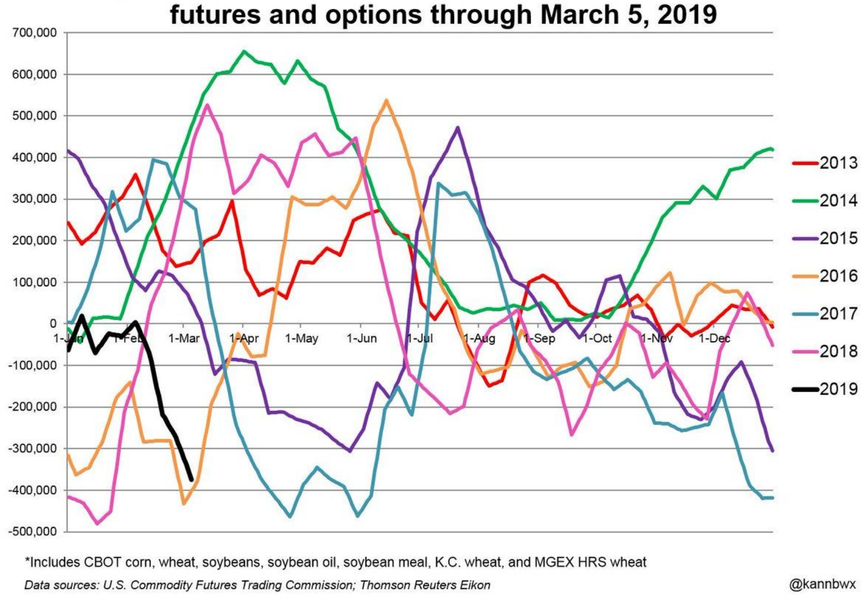
Corn – Ethanol use of corn was cut another 25 million bushels, and exports were reduced 75 million bushels, thus increasing stocks to 1.835 billion bushels. Despite recent cuts in usage, total demand would still be 345 million bushels above this year's production, and ending stocks would be down 305 million from last year to a 3-year low. USDA lowered world ending stocks 1.25 mmt on increased world feed demand. USDA dropped the average farm price 5 cents to $3.55.

Cotton – USDA made zero changes to the US cotton balance sheet despite a struggling export market. They did raise world stocks 0.59 million bales on increased production in Brazil and Pakistan. USDA lowered the average farm price 2 cents to 70 cents.



Soybeans – The only change USDA made to the domestic balance sheet was a 10-million bushel increase in crushings to a record 2.100 billion bushels. This reduced ending stocks to 900 million bushels – still easily a new record (see chart above from Reuters). USDA raised world ending stocks 0.45 mmt to 107.17 mmt, with an adjustment to last year offsetting a small cut in Brazil production to 116.50 mmt. USDA kept the average farm price unchanged at $8.60.

Money managers' combined net position in grain and oilseed* futures and options through March 5, 2019



*Includes CBOT corn, wheat, soybeans, soybean oil, soybean meal, K.C. wheat, and MGEX HRS wheat

Data sources: U.S. Commodity Futures Trading Commission; Thomson Reuters Eikon @kannbwx

Setting the Table for 2019

It's hard to believe that we're nearly ¼ of the way into the new year. The focus of everyone in ag world, from producers to grain companies to suppliers, is the ongoing trade war with China. And certainly this trade battle may be our #1 risk that we face in managing potential revenue in 2019. But while everyone is looking in one direction, there are quite a few other directions that deserve at least a long glance. Here are some of those.

1) **Manage Funds**. February was an ugly month in the ag world, and much of that was driven by fund selling. As the prospects for a trade deal began looking bleaker, and as Brazil began to make progress in harvest, these funds became more aggressive at establishing short positions. The chart above shows the net combined position of these funds, which currently stand near record-short (black line) for this week. What I would point out is that in *every year* between 2013 and 2018 this group hit its peak combined *long* position between March and July. So it would seem the odds are good that at some point they'll be back as buyers.
2) **Weather**. I hesitate to bring this topic up. But it's awfully wet in many areas of the country, and the north lands have more snowpack than in many years. This doesn't scream early spring, and early planting has been given credit for some recent record US soybean yields. And we're not even thinking about summer yet.
3) **Storage & Logistics.** I mentioned excessive moisture, which is impacting shipping on the river system. But thinking ahead – we'll carry a record amount of soybeans into next harvest, and corn & cotton acres/production are expected to be higher this spring. Where will we put it all this fall, assuming we have a good crop? Do we need to add storage? Does my gin have enough capacity?

Risks associated with the items above are all risks that can be managed to some extent, either with revenue insurance or with various marketing tools. Contact your DCIS agent to see how they might be able to help.

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Revenue Management Update

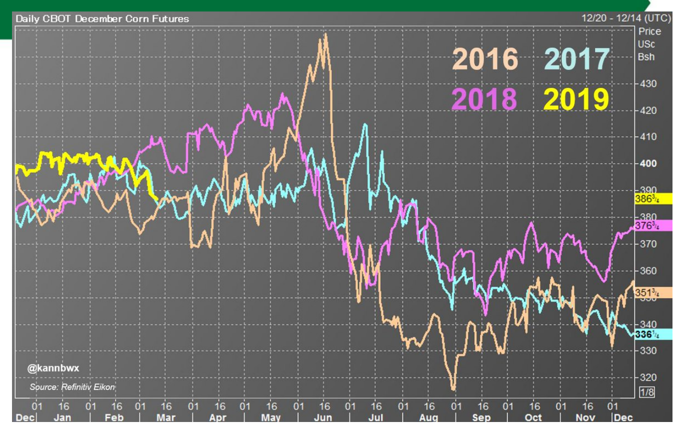
Seasonal Tendencies in Crop Prices

One marketing key that I've talked about in every meeting this winter are the seasonal trends in our crop prices. And this is the basis behind the DCIS **Price Select** endorsement, which allows producers to include other months in their policies. But this same information is *so useful* throughout the year to anyone building a marketing plan.

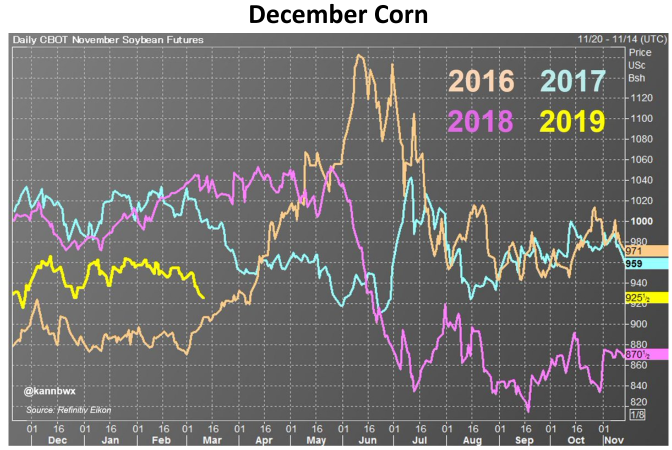
The charts are right show what **December corn** and **November soybeans** have done the last 3+ years. These trends match every seasonal chart I've seen – 5, 10, 20, or 30-year – that corn and soybean prices typically make their highs in late spring or early summer. Since we began Diversified Services 21 years ago, we have always stressed that part of the reason you buy a policy is to guarantee at the end of the year you'll have a certain number of bushels, and to sell these bushels when you can lock in a desired profit. If you don't raise all of your guarantee, the policy will pay you for lost bushels at the higher of the base or harvest price. And if for some reason you don't raise what you've sold, you'll have money from the indemnity payment to cover the remainder of the contract. A few points I would make on this subject:

1) I'm not suggesting selling your entire guarantee, but at least some comfortable amount - maybe the bushels you'll have to take to the elevator. But at least sell something when you can lock in a profit.
2) The period from March-July has been when the highs have been made the last 3+ years. Over the last 13 years, the months of April-June have been kind to corn, May-July for soybeans, and March-June for cotton.
3) Not many of us like to sell in large chunks. Therefore, I suggest starting a little early and selling in small increments in an up-trending market.
4) My personal preference is if I want to sell more than 50% of my expected production, then use an option-based strategy – either long put options, hedge and buy a call option, etc.
5) Bottom Line – the next few months are when we historically need to be wearing our selling shoes, and utilizing our crop insurance guarantee to get sales made at profitable prices.

If you know your cost of production and you can establish a salary goal for yourself, then you know what prices you need to make money.



December Corn



November Soybeans

Crop Insurance is Working for You!

As of this writing, the base prices for soybeans, corn, sorghum, and spring wheat are each higher than the current market prices. So the "put option" in your policy is already providing you protection for the 2019 crop year.

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