Gibson Insurance Group

"The Risk Management Specialists"

Crop Insurance 2013

Volume 13, Issue 2 April 2013

Spring Prices are Set !

Corn	$5.65
Soybean	$12.87
Milo	$5.53

Inside this issue:

IMPORTANT

If your intention is to harvest a cover crop for grain, <u>you do have options</u>. Please call the office at once so that we may discuss how it may affect your farming operation and what is available for you.

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Hail Coverage - now is the time

Crop hail coverage is probably the most over looked and cost effective risk management tool in the farmer's arsenal today. Because of its name, most producers think that this product only covers hail but in reality it does much more. Hail policies with the correct options will cover a multitude of losses that are not covered under the typical crop insurance policy.

Since 2009 we have found that most producers have added hail coverage to their corn crop to cover green snap and wind damage that seems to plague this area. If corn is broken over at 20 degrees or the ears are un-harvestable, hail insurance will be a god send for these producers.

For years I discounted the value of hail coverage on my farm thinking; when was the last time I lost a crop to a hail storm? Well in 2009 it happened not once, but twice. In early summer I had a beautiful stand of corn and one of those wild storms came through and cut the stalks off at ground level. Like the typical farmer I replanted the field even though it was late to try to get a crop. In the first of August this crop was starting to pollinate and was hit by another hail storm that caused considerable damage to the tassel.

This field suffered terribly when it came to yield. This yield reduction didn't hurt just one year but for several years because it became a part of the APH.

I looked at this scenario in 2010 and decided to cover all my crops with hail coverage. A basic hail policy on corn in Cooper County, Missouri only costs 70¢ per hundred dollars of coverage. One total corn loss on my farm would be enough dollars to pay for 143 years of hail coverage.

There are a variety of hail products to choose from. It is important to pick the right product for the type of crop being grown. Each of the three major crops that we insure use a different type of hail product. It is extremely important to put the right type of product with the right crop to get the best benefit for the producer.

Wheat

First lets consider wheat. With this crop we use the "basic" policy. This policy pays 1% loss for each 1% of damage. There are wind options that are available to add to this policy but we have never seen a case where we think that they are cost effective. What is important is both the hail and the fire coverage. Under the regular crop insurance policy, fire is only covered when it starts from the causes of nature. The hail coverage expands this coverage to cover fire losses like we saw last year when it was so dry. In 2012 several field fires were caused by equipment bearings going out, rock strikes and also careless smokers flipping a cigarette out the window. None of the losses would have been covered under the crop insurance policy but they are covered under the hail policy. This policy also covers grain in the grain bin as long as it is there and also transportation to the first

Hail Coverage - now is the time (continued)

Green Snap loss

Comp 2+ Corn Example

Joe Farmer has MPCI coverage at 75%. He has a crop hail policy with $500 per acre coverage.

His corn crop sustains damage from a storm at 15%. His payment for his loss will be $150 per affected acre from his crop hail policy.

15% x 2 X $500 = $150

He would receive $0 from his MPCI since the amount of loss was less than his deductible.

point of storage. Although these parts of the policy are used rather infrequently they are important to have when these unexpected perils arise.

This year wheat is guaranteed at a minimum $8.57 per bushel. With a producer expecting 50 bushel yields, it has been common for most of them to choose to attach $500 of hail coverage to their growing crop. Five minutes of hail can wipe out an entire year of income. The crop hail policies through our agency provides protection against losses that compliment your MPCI policy.

Corn

Hail coverage for corn is an entirely different animal. This crop has different risks so the policy needs to be different as well. I never advise a producer to purchase a basic policy on corn. We use a Comp 2+ policy when it comes to insuring a corn crop. This policy gives twice as much protection as a basic policy for the same amount of premium.

The Comp2+ policy pays 2% of loss for ever 1% of damage. This policy, like the basic, has no deductible and starts paying at the first percent of loss. This type of policy pays out its total guarantee at 55% loss.

This is very important because corn is a different kind of a crop. It is very resilient to hail damage that defoliates the crop. Very seldom in Missouri, (unless you live near Lone Elm) is a corn crop ever totally wiped out by hail. The worst time to get hail on corn is when the growing point has just gotten above the ground and also when the plant is tasseling.

Damage to the tassel can stop the reproductive process of the plant and no grain will develop. This is the very scenario that happened several times in different areas around Missouri in 2012. Last year was definitely a year of severe storms.

Over the last 30 years in this business we have seen storm patterns that we cannot explain. Lone Elm Missouri, the Joplin area , Sedalia area and the intersections of rivers like the Misssouri and the Lamine are all hot spots for hail. The lake areas also have had their fair share for the last several years. Whether this is due to bodies of water or just the topography of the land is unknown, however, these areas have a greater frequency of hail than any where else.

Corn in one aspect is different than wheat. When corn is growing very fast a straight line wind can easily snap the stalk in two. This is called green snap. When the plant snaps in two below the ear that plant is done. Nutrients can no longer flow to feed the ear or to provide nutrients for the plant. As this is a common occurrence in corn, many producers add the green snap option to their corn hail policies. This coverage also provides coverage for corn that is blown over at a 20 degree angle or more and can cover the extra expense that is incurred when harvesting downed corn. We have paid several claims in the past few years from storms where no hail damage had occurred only wind damage. This covers the plant until October 15 each year which, in most years, harvest is nearly done.

The most common coverage for a corn crop is a $500 dollar per acre coverage Comp 2+ policy with a green snap option. On the left side of this page is how this policy would work with only a 15% damage.

Soybeans

Like the other 2 crops, soybean crops have there own special needs as well. This crop is really strange as a

Hail Coverage - now is the time (continued)

hail storm at the right time can actually improve this crop. Before you think I'm nuts let me explain. At a certain time during the soybean plants growth cycle a hail could actually cause the plant to put on more branches covering the rows better and set on more pods than an uninjured plant. Farmers have seen this same result when spraying a herbicide that slightly burns the plant during this same period. The window for this to happen is very narrow and seldom occurs. If you are praying for hail please be specific.

Early season hail can bruise stems and knock off leaves but like the corn plant, soybeans are relatively tough most of the time. When the plant is podded and up until harvest seems to be the most critical time to me.

Two different times in my farm I have seen a light hail hit a soybean field when the plant was nearly mature that severely affected the yield. The first time was several years ago when we were planting the old Mitchell soybean. A small hail storm came through just as the plants were starting to turn yellow. The beans seeds looked like butter beans. This hail was just enough to damage the pods to where the beans nearly all popped out prior to getting dry. Like some of you remember, this bean had a tendency to shatter anyway but the hail was the culprit in this situation.

A few years later a similar situation happened when I was raising seed beans for a seed company. I was raising a 542 cyst bean for this seed company and harvest was nearly half over. The year was perfect and I was harvesting the first 70 bushel beans of my lifetime. When I went to the house that night I never expected to come back to a yield of less than half that of the night before. There again the hail damaged the pod and as soon as the sickle touched the plant beans went flying everywhere. By the time the field was finished the plants looked like snow with all the open pods. I am confident that most of you could tell these same stories.

With soybeans we recommend a Comp2+ policy. This product has no deductible and pays 2% of loss per 1% of damage. We have had no reason to add any options to this policy as it works very good just as it is. Most producers use between $300-450 per acre of coverage to protect this crop.

<u>One thing to remember about any hail product is these tools provide coverage on the per acre basis.</u> In other words, your entire unit of crop does not have to be damaged in order to receive a payment. Many times a portion of a field will be damaged while the rest of the field my be unaffected. If this were the case what ever portion that was damaged would be paid for.

The last four years the weather has seemed to be more unstable than in the past. Since 2009, we have had more hail claims than ever before. Because of the increased frequency of hail and with the damage from green snap, more and more producers are adding this coverage to their risk management plan. Therefore we think it is important to describe hail coverage to better help you make an informed decision for your operation.

Covered - Overturned grain truck on its way to the first point of storage.

growing degree days (GDD):

Are a measure of heat accumulation used by horticulturists, farmers, and gardeners to predict plant and pest development rates such as the date that a flower will bloom or a crop will reach maturity.

For example:
A day with a low temperature of 54° and a high temperature of 74° will create approximately 7.5 GDD's for corn and soybeans and approximately 14.5 GDD's for wheat.

GGD's Needed /Crop	
Wheat	*1500-1700*
Corn	*2700*
Beans	*1100-1300*

Forage Sorghum

After Wheat - Plan B

The 2012 wheat crop matured as early as any crop that I can remember. As early as 2012 was, we have the potential for 2013 to be just as late. This year the cool temperatures and snow seem to be hanging on much longer than normal. The average temperature has consistently stayed below expectations and the wheat crop has never broken dormancy.

Here at the office In Tipton, Missouri, I calculated the growing degree days for the year and compared them to the same time in 2012. This year we have had only 40 growing degree days (GDD) since the start of the year. At this time last year we had received 277 GDD over this same period of time. Weather in Missouri is ever changing so this too may change in a hurry, but as of now we are definitely behind normal.

Each year we have to look at the challenges that face us and formulate a "Plan B" if the late season causes us to look at different opportunities. The acceptance of cover crops and the salability of good quality forage have caused many producers to look at forage crops in a new light.

On my operation, if double crop soybeans are not planted by the first of July I am going to seriously consider other options with this ground. Last year we all became aware of the value of good quality forage. Many producers were surprised at the value this added to their operations. Therefore I am considering three different options in lieu of double crop beans if the season gets late. Probably the best bet in my operation would be to plant a forage sorghum that would mature in about 90 days. This product will put on a good grain head, reach a height of around seven feet tall and produce 8-9 ton of forage when planted in 15 inch rows.

This product will be chopped and is similar to that of corn silage. My experience with this in the past tells me that we will not have quite as good of analysis or palatability of the product as corn, however in dry weather this product will continue to grow when corn will stall out waiting for moisture. I have ensiled this product and used it in a backgrounding operation with good results. I don't think that I would use it in a finishing diet but it worked well in the dry lot for calves. When this product is harvested it would be my plan to immediately plant a cover crop like turnips and triticale for winter pasture.

Remember this important point when planting any sorghums. When this crop is harvested it will re-grow from the base of the plant. If that plant is under drought stress, or has been exposed to a frost and starts re-growing the plant will contain prussic acid that can be fatal to cattle. IT is important to wait for a killing freeze before letting cattle graze this in the fall.

The second best option would be to use a product like Sweet Sioux. This type of a product is a sudangrass that is very palatable to cattle and can be cut several times throughout the summertime. When planting Sweet Sioux be prepared to bale the fields every 6-8 weeks depending on rain. Baling would be my preferred method of harvesting sudangrass. This product has a high protein and sugar content until the plant starts into the reproductive stage. For the best results I always cut this between waist and chest tall. Any taller than that the product would get woody, lose its nutrient levels and go downhill quickly. It is not a product that I would want to chop although many producers with good management practices do this successfully. This product has the same dangers of prussic acid as forage sor-

After Wheat - Plan B (continued)

ghum and has to be managed accordingly.

The third, and I think the most risky option, would be to plant a short season corn into wheat stubble. My reservations about this is many fold. First this is the most expensive to plant and may very well produce the least amount of tonnage per acre, depending on the year. It will take between 1500-1800 heat units to take this crop to black layer. This may delay the cutting of this crop for silage to the mid-October range.

All three of these options have one common problem. This is we will be following a grass crop with a grass crop. The wheat stubble will have the tendency to tie up most forms of nitrogen that we put on top of the ground. Super U or any stabilized nitrogen would work, However I think I would knife in NH3 if the soil conditions were right. Knifing NH3 into dry ground has its problems too. In wheat stubble it may have the tendency to leak out because of the difficulty we may have sealing the slot.

The most important things to consider when making this decision is; What are my resources? Do I have the equipment to handle a forage crop? If I don't have a ready buyer, do I have the ability to feed cattle and market this product through livestock? Do I have the labor to harvest this crop and how well does it work in my operation? What value can I receive per ton of forage as compared to that of a bean crop?

When we have answered these questions we will be ready to make the appropriate decision that will work for your operation.

Sudan Grass

Corn Silage

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Currency War

In the 1980s I started my farming career and at the same time was enrolled at the University of Missouri-Columbia. My primary area of study was economics. During this time we were experiencing the greatest agricultural crisis in American history since the Great Depression.

At that time it was my firm belief that we could survive with a strong economy without participating in a world economy. I also believed that vertical integration of agriculture would never work as the independent operator could never be replaced with a business organization. Many of these beliefs have been proven wrong for various reasons. Today, we all recognize that we do compete in a world economy.

One exciting aspect of economics is that it is a science that continues to change and evolve as time goes on. Who would have guessed 30 odd years ago that China would be importing 65% of the world's production of soybeans. I would have never guessed that 25% of the hogs that we produce in United States would be shipped to other countries or 40% of the corn we produced in this country could be used for energy production.

Yes, time changes all businesses but even though businesses and economies change economic principles stay the same. In each of our newsletters I try to give an important update about what prices are doing and why. This is becoming increasingly difficult because of outside factors that affect agriculture. The biggest single factor that affects our Ag economy and the United

Quantitative Easing

Is a policy that the Central Bank tends to use when interest rates have already been lowered to near 0% levels and have failed to produce the desired effect. The major risk for this policy is that, although more money is floating around, there is still a fixed amount of goods for sale.

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Currency War (continued)

States economy is world politics and the manipulation of currency values. This practice is nothing new but its results have proven to be painful for the economy in general.

The first president to do this in the United States was FDR in the 1930s. We can all argue whether it was right or wrong but what happened was the net worth of people who held the commodity of gold went down by a large margin.

The second president to address this was Nixon who did away with the gold standard and devalued the currency a couple different times.

Today we are doing the same thing with the Quantitative Easing program (1 and 2) and have devaluated our dollar by about 28% since 2008. It is not my intention to start a political debate but rather see where we are in the cycle and prepare ourselves for what is to come. With the value of the dollar being less it takes more dollars to buy any commodity. This by definition is inflation. One of the only ways to cure inflation is with high interest rates that slows the economy and discourages investment.

Let me stop here, what I have just described is what set up the boom times in agriculture in the early 1970s that lead to the Ag crisis of the 1980s. Is history repeating itself? When we devaluate a currency it tends to make all commodity prices higher, whether that be food, energy, or gold. At the same time it cuts the buying power of most of its citizens with the exception of those that deal in hard commodities like agriculture, energy, metals, and land. This over simplification might partially explain why investors have moved a lot of money into agriculture and into other commodities. Will we see an increase in inflation soon or have we already? Will we see high interest rates again in the near future?

Today the agriculture industry is in the driver seat like it was in the 1970s. We are printing money at a staggering rate and not reducing our federal spending. What scares me is that we are not the only country that manipulates the value of its currency. The economic crisis in Europe and throughout the world will have countries printing money and borrowing against its value to try to get an upper hand on its financial means. It is the jockeying between countries and their currencies that dramatically affect the exports and agricultural prices that we receive here at home.

The Markets - My thoughts

Never in history have we had back to back droughts with the magnitude that we saw in 2012. But now over the late winter we have seen increased precipitation that has moved us closer to normal levels.

With 2012 fresh in our minds it is easy to expect another dry year but in reality I don't know if any one can predict this with any accuracy. With this in mind we must assume that we are going to have a normal year as far as yield is concerned and hit the trend line of 160 bu/ acre with corn.

Corn

Most analysts agree that we will plant between 98-99 million acres of corn in 2013. If these two things take place there is little doubt that the price of corn will drop significantly. New crop corn this week has rallied to $5.84 which

The Markets - My Thoughts (continued)

is a far cry from the levels we are receiving for old crop.

The biggest problem that corn will face in 2013 is the reduction in demand along with the increased world production of corn. In the United States alone the Congressional Budget Office is predicting a 34% increase in corn production. We know that Brazil and several other countries have added many acres of corn to their plantings as a response to the high corn market. With this in mind we have to assume that corn will not be in short supply in 2013.

Demand has been hammered by high prices. More than 10% of the ethanol plants that were running in the United States have shut down and many of the ones left are operating at a reduced capacity. The expected usage of corn by US ethanol plants this will fall 130 million bushels short of earlier government estimates.

Cattle numbers are down to very low levels and pork is expected to follow. In this country we export about a quarter of all the products that we raise. In recent months this export demand has fallen by over 15% this has sent pork prices into a tail spin since mid-February. Even though few of us raise hogs any longer we have to remember that this industry is a major player when it comes to the use of corn.

Experts seem to agree that the average expected corn price for 13/14 crop year will be between $3.75-4.50.

Soybeans

Soybean demand is still very strong. China is still an active buyer even though this is typically the time of year that they start to get most of their production from Brazil. Brazil's infrastructure and shipping ports are a major problem for that country. Issues from both have slowed exports from that country this year.

Crush in the US is still very high and this is definitely supporting demand. Unlike corn, soybeans will not be adding acres this year. Early estimates still suggest that we are still going to plant about 76 million acres of beans in this country. If this holds true, we will actually be down by about 1.5 million acres from last year.

The erosion of the corn market will drag beans along but its downside will not likely be as severe as that of corn. Without the increased acres it is very possible that the price of beans marketed in 13/14 will remain in the $11.50-13.00 range depending on weather and continued export demand.

Wheat

Wheat has been a life saver for the livestock industry this year. This crop has replaced a lot of corn in diets and will continue to do so until the new corn crop comes in. The corn supply shortage has supported this market and will support the new crop wheat as well. Wheat exports have been active as well with recent week's exports hitting near the 40 million bushel mark.

With corn supplies remaining tight we expect wheat for 13/14 to rebound to the $7.50-8.00 range.

Cattle

The cattle market is one that I don't feel I have a good handle on. Without question the numbers are low but the demand for beef has fallen in this country and continues to decline slightly. My question is at what point will the housewife start shifting her meat purchases to other products like pork and poultry.

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The Markets - My Thoughts (continued)

The demand for beef can not remain totally static when the other meats are at such high discounts. In the last two newsletters we mentioned that we thought that cattle prices would start to erode. Since the first of the year this has been the case. April Live Cattle have fallen 15 dollars/cwt and May Feeders have come down by nearly 25 dollars/cwt.

When you visit with most sale barn operators and cattle producers they all seem to think that beef prices can do nothing but go up. It is always supply-supply. Remember the old saying: "When everybody runs one direction go the opposite way." That's what I am doing in the beef market. I not saying that there won't be profitability in this sector. What I am saying is that producers need to have realistic expectations of what the market will do in relation to the other meats. If that is not done there will likely be a blood bath in this sector. Remember there are risk management tools like LRP that can be used to protect the profitability in this market and still have unlimited upside potential.

This Agency has been making a difference for Ag Operators of every size with tailored, professional risk management programs for over 30 years. With margins as tight as they are, our service means so much to many people whose future is linked to the land. Our commitment is real !!!!! Please stop in to see us in Tipton or give us a call at

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