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*"The Risk Management  
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**REPLANT  
WARNING !**

If you are going to  
need to replant call  
the office ASAP.

**DO NOT JEOPARDIZE  
Your coverage !!**

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**GIBSON  
INSURANCE  
GROUP**

337 Highway 50 East  
P.O. Box 795

Phone: 660-433-6300  
Fax: 660-433-6315

www.gibsoninsurancegroup.com

# Crop Insurance 2014

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## Planting Intentions - What does it mean?

Last fall we were pleasantly surprised with crop yields after the challenges of last summer. Corn production surged to 130% of the 11-12 marketing year. Shortly after harvest started in the south we realized that these yield numbers would be higher than we had expected. The market reacted accordingly taking over a dollar off the market during harvest alone. Since that time this market has remained relatively calm with little movement until recently. Nearly all market forecasters were confident that we would see another leg down in this market as we headed into spring. This is still a real possibility, but two new factors have entered into the grain market that was unexpected.

The main issue is the controversy that is going on in the Ukraine. The Ukraine is a very fertile region between Poland and Russia that borders the Black Sea to the South. This one area has surged in agricultural production over the last several years and accounts for over 15% of the world corn exports. In the last few weeks the political turmoil there has made exports coming out of that area questionable. Currently the ports are still open but further military

action could change that overnight. What's more important is the real possibility that planting, harvesting and the financial sector would all be interrupted in the case of war.

If this scenario plays out there will be continued strength in the grain markets as the world food supply would be limited by the production from that region. Much of the recent price action has been related to the tensions in this area. Since the middle of February we have seen a \$0.50 increase in corn prices alone. The second factor is the USDA Planting Intentions Report. Every year we struggle with planting intentions prior to this report as we make plans for our marketing year. Every year at this time we generally see a spring rally prior to planting

as we try to buy acres from one crop to another. The USDA predicted earlier that we would probably plant less corn acres in '14 than we did in '13 due to the decline in price. They also estimated that soybean acres were to increase at the expense of corn.

Today we got confirmation of this fact as the USDA planting intentions report has been released. This report suggests that we will be planting 91.7 million acres of corn and a record high 81.5 million acres of soybeans. The USDA usually does a good job with the planting intention report as it generally reflects what will actually get planted with a good deal of accuracy.

I was expecting this report to show higher intended corn acreage than it did. It is easy to get caught up in the



## Spring Prices



## Livestock Risk Protection



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## Planting Intentions - What does it mean? (continued)

hype prior to a report and expect different results. This has been the case this year. Initially this report was hard for me to believe until I dug deeper into the numbers. Each year I have to remind myself that we produce many crops in this country. In Missouri we get lulled into the impression that the only three crops are corn, winter wheat, and soybeans, and those acres trade back and forth depending on market conditions. Nationwide Rice is up 116%, Canola is up 129%, soybeans up 106%, peanuts are up 129%, just to name a few.

North Dakota, for example, is expected to only plant 77% of the corn that they did last year. What is going to happen to those 900,000 acres of corn ground they planted last year? As I looked further into the report, fall seeded wheat in that state increased by 364%. When we look at the spring and fall seed wheat together, it amounted to 1,700,000 additional acres in North Dakota alone. This report demonstrates that there are more crops important to agriculture than corn, soybeans, and wheat. After studying this report in depth it becomes much more credible. There is one problem I did have with the report. In the fall of 2013 we had many acres came out of CRP that were not renewed and due to the late spring in 2013 we had an unusually high number of acres in preventive planting in the northern

tier of states. These acres don't seem to show up in the USDA numbers as I look at them. Where are these acres going? We must assume that some of the PP acres were planted to wheat, which might explain the increase in North Dakota where they had a lot of PP acres last summer. Lands coming out of CRP and ground that is marginal for corn will both favor soybeans over a large part of the country which might explain the record number of intended soybean acres in the report. This I believe will be the case.

The historical price ratio between corn and beans is 2.5. That is soybeans should be priced 2.5 x that of corn. When this ratio goes to 2.8-3 the market would favor the planting of soybeans and producer would have the tendency to change planting intentions. Conversely if the ratio was down to 2 then the market would favor the planting of corn. At this time the ratio is running at 2.43 which is neutral. Even though prices this spring are \$0.60 lower for corn than they were last year and \$1.20 lower on soybeans I do not see farmers making huge reductions to planted acres.

So the question remains what will be the driver of the market. By looking at the export numbers and usage of beans this remains a demand driven market especially for old crop soybeans. I have never had any luck at guessing what the weather

will be so I have to assume that each year will be normal. I have learned to follow the trend yield and understand that new technologies historically have added yields to the trend line each year. With these 2 variables out we have to turn our attentions back to the political arena and to planted acreages. No one can say with confidence at this point which scenario will be the driver of the market.

We have had several years of high grain prices in a row and producers are overly optimistic about what the next several years will bring. Even though the futures markets have fallen over the past year, producers thoughts of selling corn at 2012 -13 levels remains fresh in their minds.

For my operation I made the decision to sell the market on both corn and beans. I have sell orders in place to market corn at \$5.18 and have marketed \$11.80 beans on the board for new crop. To me the upside potential for the markets to rebound to prior year levels is very slim and do not outweigh the downside risk. At \$5.18 corn we can lock in profits, even though they are not huge, and it is a good place for my operation to start marketing.

I am confident in my decisions because I can still show profitability at these levels. If the USDA is wrong and planting acres are reduced for what ever reason or conflict breaks out, we have tools available in the

*(continued on page 6)*

## Supplemental Replant Option - A Closer Look

Time is quickly approaching for the rush to get crops into the ground. I decided that now is the time to explain the Replant Option that most producers have decided to sign up for this year. The Replant Option gives you extra coverage for the cost of replanting on top of what your current policy already covers.

Your current policy already has some replant coverage included. However, you have to meet certain criteria. You can only collect the replant payment that is included with your policy if you meet the 20/20 rule. Simply put you can only collect payment if you have to replant the lesser of 20 acres or 20% of your field. For example, on a 100 acre corn field the adjuster determines that 18 acres needs to be replanted. Since the 18 acres doesn't meet the 20 acres or 20% of the field rule, you would not receive a payment under just your policy alone.

If you have taken the optional Replant Option, you can collect a replant payment from the first acre that needs to be replanted. This option can help better control the risk associated with planting each season. For this season, \$30 per acre coverage was the level of coverage that most producers chose to help cover the risk of replanting. With \$30 per acre coverage, the 100 acre corn field with 18 acres that needs to be replanted you would collect a payment of \$540.

Let's say that you have a 450 acre field of corn that needs 95 acres replanted. Your policy will pay approximately \$40 per acre replant and your Replant Option will pay \$30 per acre replant.

- The policy will pay 95 acres X \$40 per acre = \$3800

- The Replant Option will pay 95 acres X \$30 per acre = \$2850

For those 95 acres, you would collect a payment of \$6650.

Another benefit that is included with the Replant Option is Early Bird Planting. The Early Bird allows you to get into the field faster if the conditions are right for planting. You are able to plant up to 20 days earlier than the initial plant date. For example, the initial plant date for soybeans is April 20<sup>th</sup> you can plant as early as April 5<sup>th</sup>. However, there is a downside to using the Early Bird option. You can only collect the payment for the Replant Option and

not the payment for the replant included within your policy since the land was planted before the initial plant date. You will have to decide if the risk of planting early and only collecting the Replant Option payment (if needed) is worth the reward of being able to harvest and market early.

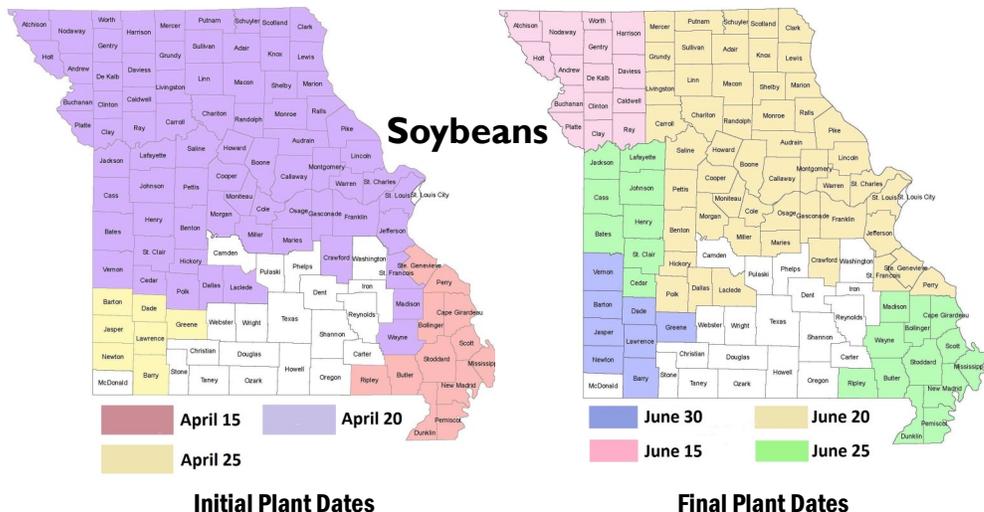
The Replant Option cannot be used if your land is considered to be high-risk or if it is covered under written agreement. It also does not need to be renewed each year. If you need to make changes or cancel, you need to contact our office by sales closing each year. If you have any questions, please contact our office.

**Important Note:**  
**It does not matter if you have the Replant Option or not if you need to replant you must call the office so we can turn in a claim and you then have to wait on an adjuster to call and give you the ok to replant.**



### Farming New Fields This Year?

Please call the office or let your agent know BEFORE June 1st. By doing so, it will enable us to enter them into our mapping system and creates a more accurate acreage report for you.





## Map Based Acreage Reporting (continued)

our producers, with an emphasis given to the actual operators. We did this to help ensure that we have accurate maps for each producer. The preceding page has an example of how the new form will look. As you can see, a map of your fields will be printed on each page. Each map will consist of all your fields that are located in a particular section of land. The more sections that your fields lay in, the more pages there will be in your acreage reporting form. If you have coverage in more than one county we will be combining all the acreage reports into one set of documents. Each individual county will be grouped together for easier reporting.

*What more paperwork!?!?! Unfortunately yes BUT we think that once you use this new form you will appreciate how easy it is to fill out compared to the old re-*



ports. (We hope!!)

### How do I fill it out?

As you can see in the example, Joe Farmer has marked each of the highlighted fields with a crop (C for corn and SB for soybeans) and the initial plant date for each field. He has also added a field (bottom right corner of

the map) that he added before he had a chance to have it mapped here at the office. Also notice that Joe Farmer also planted corn and soybeans in field I. He drew a line marking the approximate boundary between the two crops. This will be helpful when he reports to FSA so that they may make the designation on their maps and the producer print. If you don't plant all of a field you can draw lines marking your planting areas on the field as well. At the bottom of the page Joe entered the share percentage, acres, and latest final plant date for each crop for this section.

Our hope is that each of our producers that report to FSA will take this map to their local FSA office when they report their acres. We hope that this will ensure that no fields are left unreported and that all the planting information will correctly correspond with each field. After reporting at FSA, we would encourage you to bring your complet-

ed, signed, and dated acreage report to our office along with a copy of your 578.

To really make this all work we want to encourage every producer that received a map booklet to carefully look over their maps. Let us know if a) we have fields mapped that you no longer farm and b) you are farming fields that we do not have mapped. We would like this information by June 1 if possible. This will make each of your acreage reports reflect only the fields that you will/might be farming. Of course, like Joe Farmer did, you may pick up more acreage and will need to note it on your acreage report. There will be a page included just for a situation like that.

We are sure there will be a learning curve for everyone but sometimes change is a good thing and this is a good thing. Like anything that is new we are sure there will be questions so please do not hesitate to give us a call here at the office.

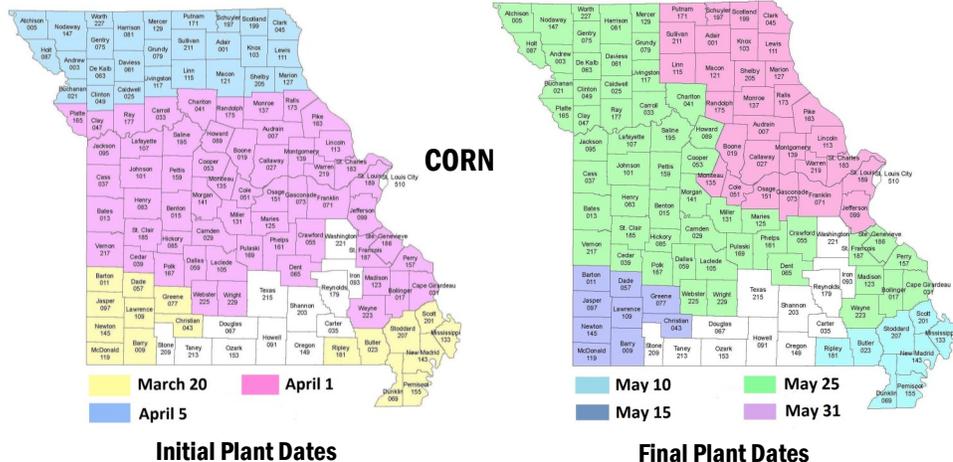
## Wheat and Barley Growers

The late planting last fall and the uneven weather patterns of the winter has raised some concerns about how this crop will turn out.

Now that the crop is just coming out of dormancy and spring fertilization has been applied it is only waiting for some significant rainfall to jumpstart its growth. Only after this do we feel that we will be able to fully determine the potential of the crop.

We would like to caution our producers to have a little patience with the crop. What we do not want to happen is for your coverage of the fall crop and/or your spring crop to be jeopardized. We are still early in the spring planting season so there is still plenty of time for any decisions that need to be made.

We ask that you call the office or your agent if you have any questions about what your options could be.



### Benefits of Agriculture to Missouri's Economy

- ◆ Agriculture added \$11.4 Billion to the state's economy in 2013.
- ◆ 66% of Missouri is farmland. The Bootheel is the most intensively farmed.
- ◆ Missouri's top ag commodities are corn, soybeans, cattle/calves, hogs, and turkeys.
- ◆ Ranked 4th nationally in rice production, 8th in soybeans, 9th in cotton, 8th in milo, and 12th in corn in 2012.

### How Crop Insurance Helps Missouri Agriculture

- ◆ Protected \$3.9 billion of liability on crops being grown in Missouri in 2013.
- ◆ 9.2 million acres insured and more than \$379 million paid to farmers for production and/or revenue losses.
- ◆ Top crops being protected in 2013
  - ◆ Corn - \$1.7 billion protecting 3.1 million acres.
  - ◆ Soybeans- \$1.7 billion, protecting 4.7 million acres.
  - ◆ Wheat- \$193 million, protecting 740, 479 acres.
- ◆ Crop-Hail provided an additional \$1.3 billion in protection in 2013.

Non-Discrimination Statement  
 Non-Discrimination Policy  
 The U.S. Department of Agriculture (USDA) prohibits discrimination against its customers, employees, and applicants for employment on the bases of race, color, national origin, age, disability, sex, gender identity, religion, reprisal, and where applicable, political beliefs, marital status, familial or parental status, sexual orientation, or all or part of an individual's income is derived from any public assistance program, or protected genetic information in employment or in any program or activity conducted or funded by the Department. (Not all prohibited bases will apply to all programs and/or employment activities.)

## Planting Intentions - What does it Mean? (continued from page 3)

market today where we can limit the exposure we have to market movement by putting in stop losses. I am discounting the turmoil in the Ukraine as I don't see other countries making aggressive efforts to resolve this situation at this time with military action. It will be in the best interest for both the Russians and the Ukrainians to keep these ports open and disrupt agriculture as little as possible. All in all this report may turn out to be a nonevent. Corn should trade in a similar range to where it is right now and could get a little stronger as weather concerns arise due to the prolong cold conditions in the north and concerns about dry conditions in the south.

### Livestock Markets

Meat prices this spring have continued to climb to record levels in regards to beef. Pork prices are at historically high levels as well. This trend has been fueled by the lack of supply and the unwillingness of the consumer to make major changes in their buying habits. In reflecting back on this market it looks remarkable similar in some aspects to the grain markets during the drought of 2012. The supply curve has shifted back and the demand for beef and pork have been static enough to justify the current price levels that we are seeing today. We are all very aware of the length of time that it takes for beef inventories to increase.

Therefore we can rest assured that the supply can't change very fast but demand can erode over time thus curbing the price increases in the future. A report that was recently published predicted that this year alone, per capita beef consumption in the US will fall by another 3.5 pounds in this calendar year.

The real challenge for the beef industry moving forward will be how to maintain these higher farm prices in the face of shrinking per capita consumption, static import/export ratios, potential consumer product substitution, slowly expanding herd numbers, and the fickle winds of national and world politics.

Pork on the other hand is in the expansion mode. Looking at the slaughter numbers we notice that sow slaughter is substantially lower than average and gilt slaughter has been running in the 48% range versus the average. Both these numbers suggest that producers are building breeding herds. The biggest issue with the pork industry is the PED virus that is reducing the number of hogs going on to feed. Even though we are

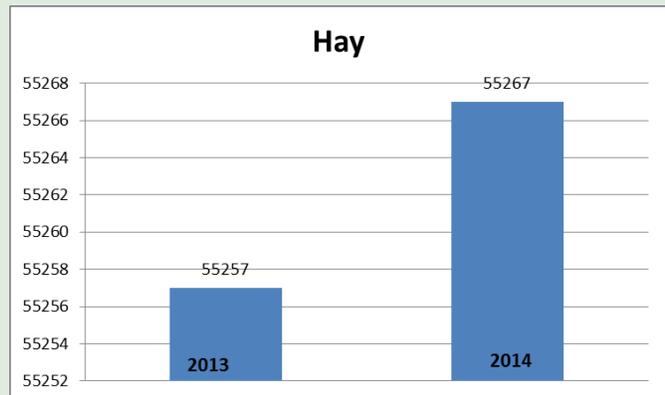
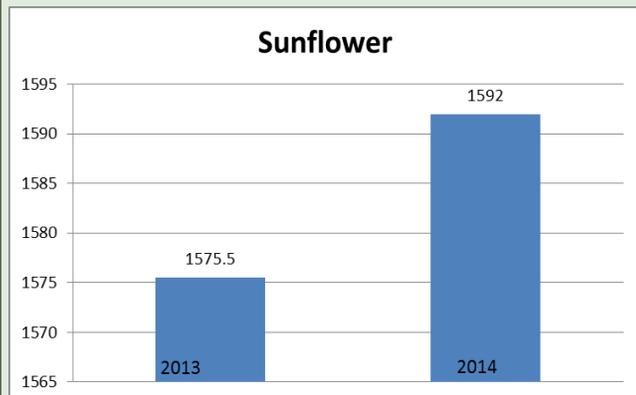
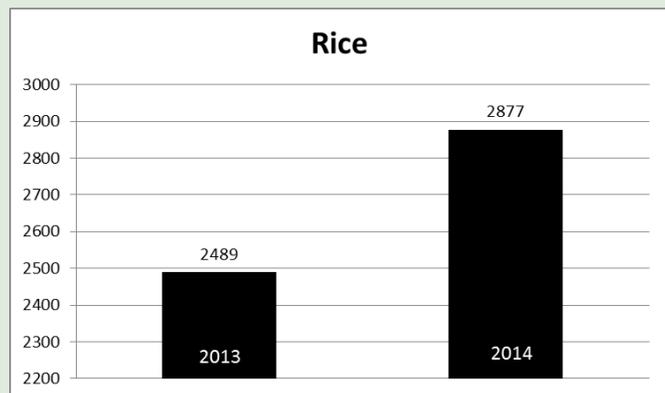
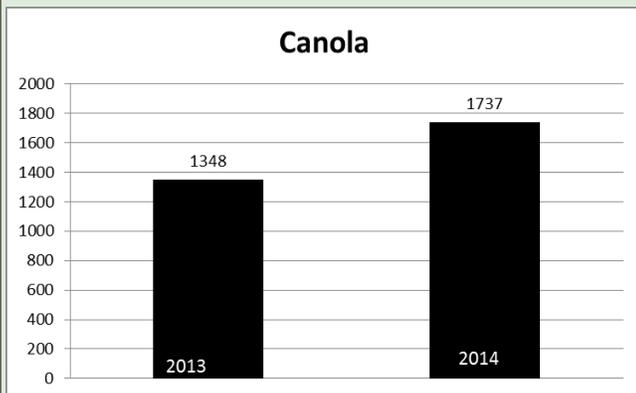
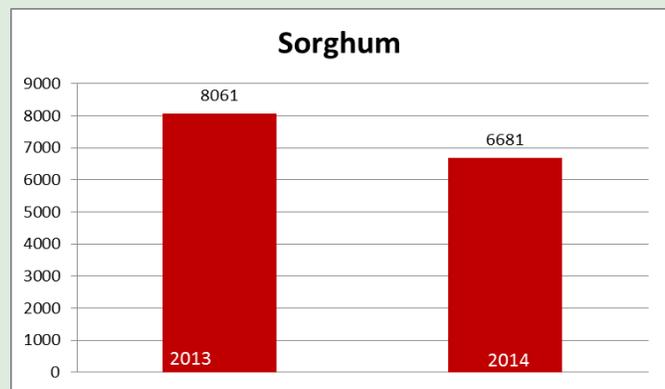
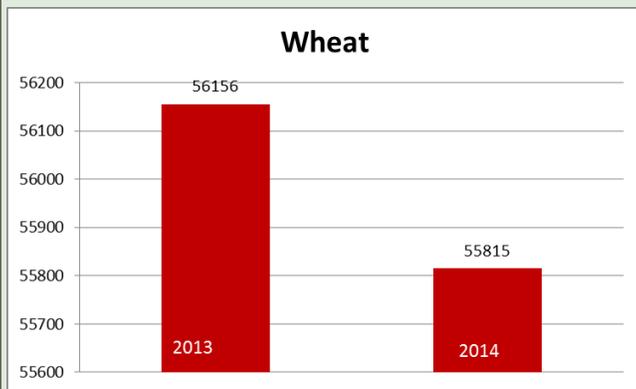
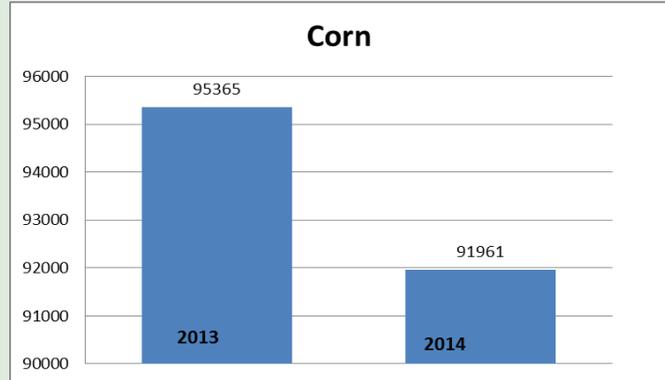
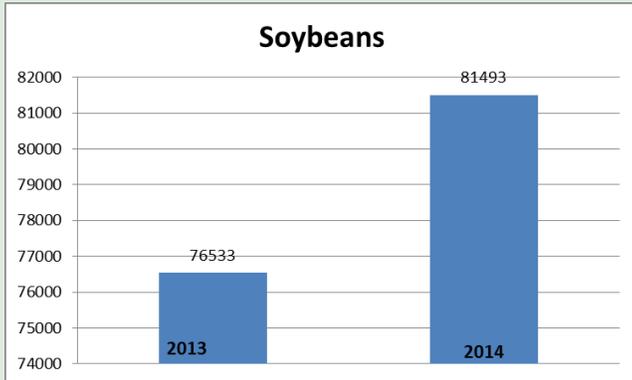
expanding the breeding herd, this virus has been limiting our production capabilities. In response, we have seen producers take hogs to heavier weights in order to supply the market with more pounds of saleable product. Back when I was in the hog business market hogs were sold in the 250 pound range. Over the last 10 years this weight had increased to 270 pounds and in 2014 we are currently selling market hogs at 285 pounds. This increased weight accounts for a 105% increase in pork production with the same number of hogs.

In years past we used a corn/hog ratio to estimate the profitability of this industry. Typically this ratio needs to be at 20/1 in order for the pork producer to be very profitable. With the current hog prices this ratio has increased to 26/1 making hogs a very profitable enterprise at the current time.

With beef prices as high as they are I would expect pork to be used as the loss-leader in stores this summer as we are quickly approaching the grilling season.



The Acreage Charts - 2013 vs 2014 (in 1,000's of acres)

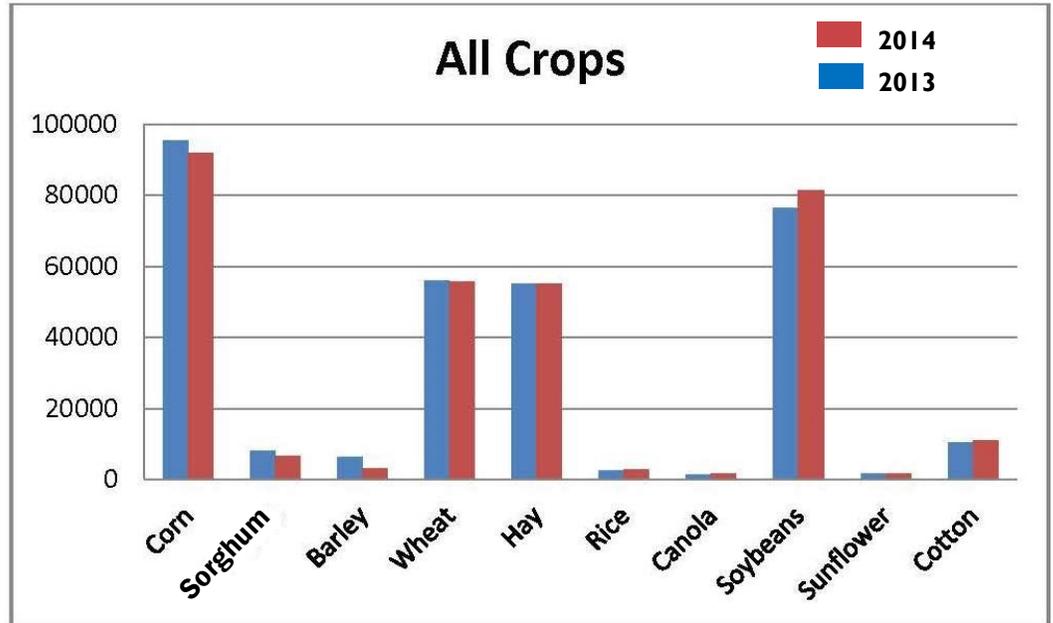




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337 Highway 50 East  
P.O. Box 795  
Tipton, MO 65081

Phone: 660-433-6300  
Fax: 660-433-6315



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TIPTON, MO 65081