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2023, WEEK 08

Producer Wire

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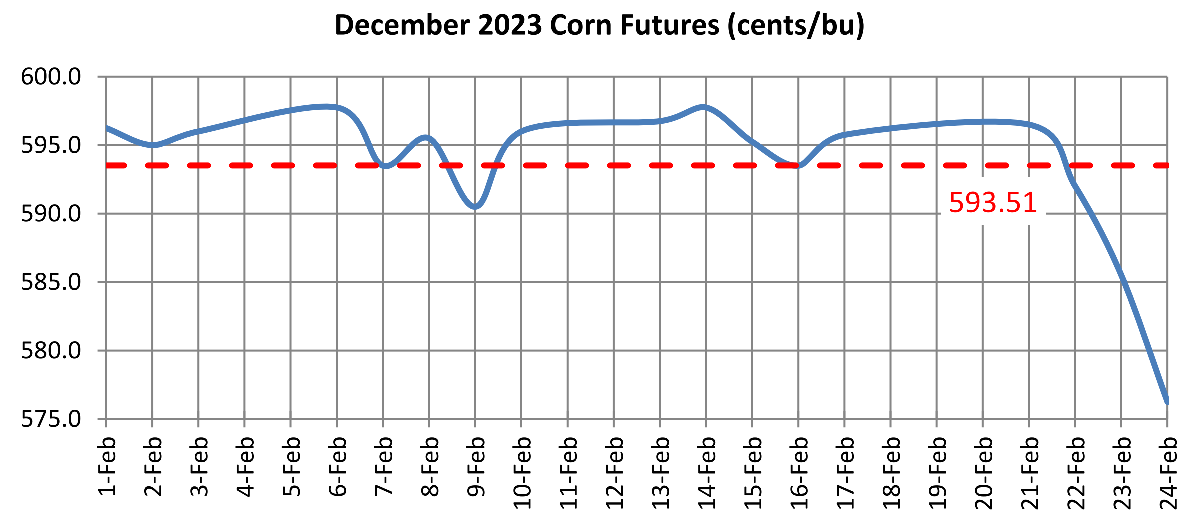
Crop Insurance Important but Only Part of Overall Risk Management Strategy

Crop insurance has proven to be a valuable tool as part of a comprehensive risk management strategy. An updated review of various policy coverage levels and yield scenarios for 2023, however, highlights the limitations of relying solely on crop insurance to manage price risk. This is especially the case when actual yields exceed the APH, which has been seen in some areas. The incorporation of options with crop insurance can help provide protection from the risk of low prices associated with a large crop, while also providing the opportunity to participate in a stronger market. Your *Advance Trading* advisor can review scenarios for your operation and assist in the development and implementation of a marketing program tailored for your particular set of circumstances.



LIVESTOCK

Kansas cash cattle prices were up $1.75 cwt from last week at $161.98/cwt. At the current price, a feedyard that was not hedging lost $136.90 to $170.23 per head depending on how the feed was purchased. Projections indicate a loss for un-hedged producers. (Read more...)

EGGS/POULTRY

Egg prices were up 17.7 cents/dozen from last week at 216.7 cents/dozen and remained above estimated production costs.
Total production costs were down 0.8 cent/dozen from the week before at 79.8 cents/dozen. With this, producer margins were positive 136.9 cents/dozen. (Read more...)

Highlights

Crop insurance a valuable tool as part of a risk management strategy but has some limitations

Incorporating options can provide a price floor while also providing flexibility to participate in a stronger market

Chicken prices were higher last week and remained above estimated production costs

Ethanol grind: 1,029,000 barrel/day for week end Feb. 17—up 1.5% v. last week and up 0.5% v. 2022

Crop insurance base price for 2023 corn to be near $5.94

Crop insurance has proven to be a valuable tool as part of a comprehensive risk management strategy. Selection of a policy for your operation is an individual decision based on a variety of factors. Rather than focus on the policy decision, our objective today is to highlight the limitations of relying solely on crop insurance to manage price risk.

Corn Example: 185 bpa APH

Crop insurance base prices for 2023 will be established in February. We are focusing on corn in this wire, where the base price is projected to be near $5.94. Specifically, we'll look at various policy coverage levels and yield scenarios for 2023. The grid below spotlights the price at which an indemnity will be paid if the actual yield exceeds the APH (in this case, 185 bpa) by a certain percentage.

Price at which insurance pays if you raise a % over your APH

$5.94 December Price

	APH plus				
Coverage	5%	10%	15%	20%	25%
70%	$3.96	$3.78	$3.62	$3.47	$3.33
75%	$4.24	$4.05	$3.87	$3.71	$3.56
80%	$4.53	$4.32	$4.13	$3.96	$3.80
85%	$4.81	$4.59	$4.39	$4.21	$4.04

For example, a producer with 85% coverage has a revenue guarantee of $934.07 ((185 X $5.94) X .85). Effectively, this provides downside price protection to $5.05 ($934.07/185). Looked at another way, under these assumptions an indemnity would be received if the average price of December 2023 futures in October was below $5.05. One key limitation of utilizing crop insurance alone, however, is what occurs when the realized yield is above the APH. This has been seen in some areas in recent years, e.g. if the realized yield were 5% above the APH (i.e. 185 X 1.05 or 194.25), then the average price of December futures would have to be below $4.81 ($934.07/194.25). At higher percentage levels above the APH, the lower the net price afforded by crop insurance alone. If the actual yield were 20% above the APH with 85% coverage, the average price of December futures would have to be below $4.21 before crop insurance pays.

This scenario is where incorporating the use of options can fit in well. For example, a put option could be purchased to provide downside price protection while at the same time providing the opportunity to participate in a stronger market. Your *Advance Trading* advisor can review scenarios for your operation and assist in the development and implementation of a marketing program tailored for your particular set of circumstances.

LIVESTOCK

The average cash price for 750-pound feeder cattle was down $10.70/cwt from the week before at $183.30/cwt. Expected corn costs were down $0.10 from the week before at $7.37 /bushel. At these levels, we pencil a breakeven price of $166.57/cwt, down $7.28/cwt from the week before. With cash cattle in June projected to be $158.22/cwt, a feedyard could expect a loss of $104.31 per head.

The Iowa/So. Minnesota weekly average price was up $0.03/cwt from the week before to $58.05/cwt. At this price, our calculations indicate a typical Iowa hog producer with un-hedged hogs lost from $10.19 to $14.89 per head, depending on how the feed was purchased. A sow bred today would farrow a pig in June and with estimated corn costs at $6.72/bushel and soybean meal at $471.90/ton, expected production costs are $63.62/cwt to raise the pig to a live market weight in December. With cash hogs projected to be $72.84/cwt, a pork producer would have a profit of $23.03 per animal.

Broiler egg sets during the latest reported week were above last year's levels. Egg sets during the week ending 02/11/23 were up 0.6% from the week before. Egg sets were up 0.6% from a year ago and average egg set over the last four weeks is up 0.5% from last year. Egg sets were above the 5-year average for this time of year. Last week's egg set was 2.9% more than the average set for this time for 2018 through 2022 and over the last four weeks, egg sets have averaged 2.5% above the five-year average. Chick placements were up 1.0 % from year ago levels. Placements during the latest week were up 1.0% from last week and placements over the last four weeks were up 0.4%.

Chicken prices were up $0.01 per bird from last week remaining higher than estimated production costs. Income from both whole broilers and further processed birds was $5.36 per bird. Our estimates indicate feed, growout costs and processing for an average integrator were up $0.02 from last week at $3.99 per bird. With this, estimated returns were up $0.01 from the week before at $1.38 per bird.

Ethanol grind: 1,029,000 barrels/day for the week ending Feb. 17—up 1.5% versus last week and up 0.5% v. 2022. Stocks were 25.558 mb, up 0.249 mb from the prior week, and up 0.081 mb versus last year.