



## Diversified Crop Insurance Services

# Revenue Management Update

**Friday, January 12, 2018**



## **Nothing to Hang Your Hat On.**

USDA issued its cornucopia of reports on Friday, and didn't really provide longs (most producers, I imagine) much to hand their hats on. The immediate market reaction was a reversal of the recent selloff in soybeans and reversal of the recent higher run in cotton. And new selling in wheat and corn. The bottom line: for those looking (hoping) for something to hang their hat on from this report, we really didn't get it.

The biggest bearish news came from the **Winter Wheat Seedings** report (top right), which showed total seedings close to a year ago, and 1.3 million *higher* than the average trade guess. Hard red wheat acres were 800,000 *higher* than the average estimate, while soft red wheat acres were 400,000 *higher* than the average. Wheat led the downside, closing double-digits lower on Friday.

**Final 2017 Production** was *higher* for corn & *lower* for soybeans (state maps at right). Corn yield was a new record 176.6 bpa, up more than a bushel from last month, pushing production up 26 million bushels. Soybean yield was lowered 0.4 bpa to 49.1, taking production down 33 million bushels.

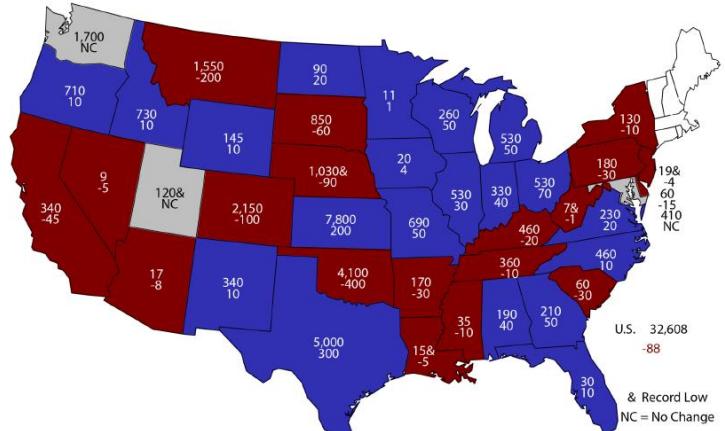
To me, the biggest stories from this report continue to be 2018 ending stocks. USDA carried the larger corn production forward for an increase of 40 million bushels ending stocks to 2.477 billion bushels. **December 1 corn stocks exceeded expectations** by 85 million bushels.

Nothing friendly there. The good news for soybeans were that reduced production caused **December 1 soybean stocks to come in under expectations**. The bad news was that USDA did cut export demand by a jolting 65 million bushels, causing ending stocks to rise to 470 million bushels. The soybean market hung in surprisingly well, probably because it had already fallen 70+ cents prior to the report. USDA also raised their Brazilian soybean estimate while lowering their Argentine estimate.

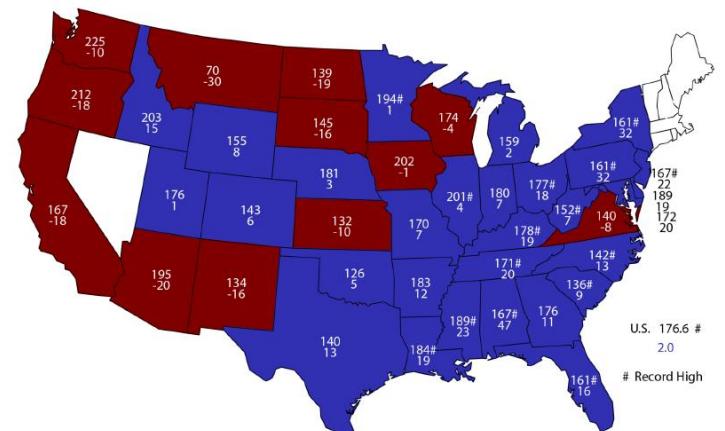
**USDA cut wheat feed & seed demand**, pushing ending stocks up 29 million bushels from last month. Throw in more acres of winter wheat into next year's balance sheet, and probably more spring wheat acres too, and what appeared to be a favorably-leaning outlook has turned back bearish. **USDA only made small tweaks to the cotton production and ending stocks this month**.

They didn't increase demand like the trade expected, which likely triggered a little profit taking post-report from new contract highs Friday morning. Strong Asian demand plus very strong cash gin demand continues to drive this market, while the outlook for more acres this spring, possibly more than the market is currently thinking, may weigh longer term.

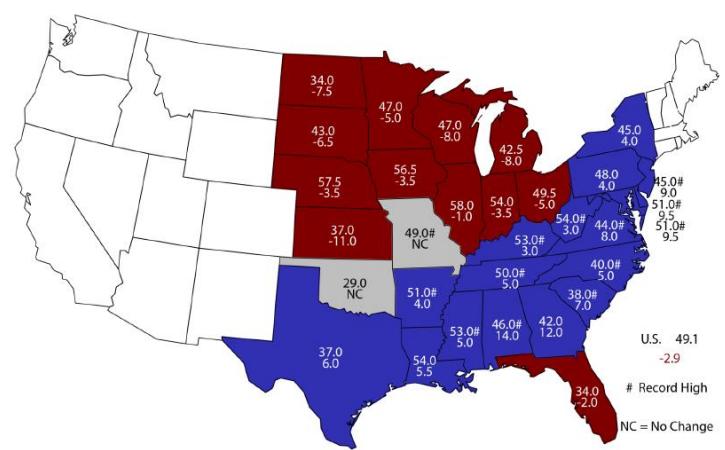
## 2018 Winter Wheat Planted Area (000) Acres and Change From Previous Year



**2017 Corn Yield**  
Bushels and Change From Previous Year



**2017 Soybean Yield**  
Bushels and Change From Previous Year





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## Revenue Management Update

### Some New Crop Marketing Strategies to Consider

I suggested in this letter back in October my main risk management points for 2018, which were:

1. Take advantage of subsidized revenue insurance.
2. Sell grain when you want, not when you have to.
3. Should I consider buying "add-on" insurance?
4. Renew your focus on marketing.
5. Commodity option volatility is at its lowest level in many years.

As I travel and speak to groups this winter, my main focus is on price risk management. Revenue protection is the beginning of a risk management plan, and this year you may be able to get extra bang for your buck since volatility levels are historically low & premiums are less for some crops. Added insurance products that give extra bushel &/or price protection might be considered to help cover more costs of production. But keep in mind that those products are not subsidized. Bang for my buck this year? I would prefer to use those extra risk management dollars to help me with my marketing. Some of my most recent strategies that I've been suggesting are:

**Corn** – buy September \$4.20 calls at 8 cents now when corn price & volatility are low, anticipating better chances to market in the spring/summer. My first target is \$3.95 December '18 futures.

**Soybeans** – hedge November soybeans anywhere near \$10.00, &/or consider an option strategy of buying November \$9.60 puts & selling November \$10.60 calls. This floor & ceiling strategy traded to just 10 cents on Friday, thus giving a \$9.50 futures floor and a \$10.50 futures ceiling.

**Cotton** – with the recent rally, I also like the floor & ceiling option strategy. A current spread to consider would be buying December 74 cent puts & selling 80 cent calls at a net cost of 1 cent, giving a 73 cent futures floor and a 79 cent futures ceiling.

January 2018 WASDE Report					
US 2017/18 Production:	USDA January	Analysts' Average	Estimate Range	USDA December	
Corn	14,604	14,557	14,434-14,663	14,578	
Soybeans	4,392	4,425	4,385-4,466	4,425	
All Wheat	1,741			1,741	
Cotton	21.26			21.38	
US 2017/18 Ending Stocks:	USDA January	Analysts' Average	Estimate Range	USDA December	
Corn	2,477	2,414	2,263-2,519	2,437	
Soybeans	470	477	425-595	445	
Wheat	989	962	855-987	960	
Cotton	5.70			5.80	
World 2017/18 Ending Stocks:	USDA January	Analysts' Average	Estimate Range	USDA December	
Corn	206.6			204.1	
Soybeans	98.6			98.3	
Wheat	268.0			268.4	
Cotton	87.8			88.0	
	Bullish ↑	Bearish ↓	Neutral ↔		

USDA Final & Projected MYA Farm Prices (\$ per bushel, cents per pound, \$ per cwt)					
	PLC Ref Price	Final 2014-15	Final 2015-16	Final 2016-17	2017-18
Corn	\$3.70	\$3.70	\$3.61	\$3.36	\$3.25
Soybeans	\$8.40	\$10.10	\$8.95	\$9.47	\$9.30
Wheat	\$5.50	\$5.99	\$4.89	\$3.89	\$4.60
Cotton	N/A	60.5	58.0	68.0	69.0
Sorghum	\$3.95	\$4.03	\$3.31	\$2.79	\$3.15
Barley	\$4.95	\$5.50	\$5.52	\$4.96	\$4.50
LG Rice	\$14.00	\$11.90	\$11.10	\$9.62	\$11.80
Peanuts	\$0.2675	\$0.2200	\$0.1930	\$0.1970	\$0.1950
					unch
					up 5 cents
					up 10 cents
					unch
					up 6 cents
					up 5 cents
					down 10 cents
					down 0.50 cents
					unch

