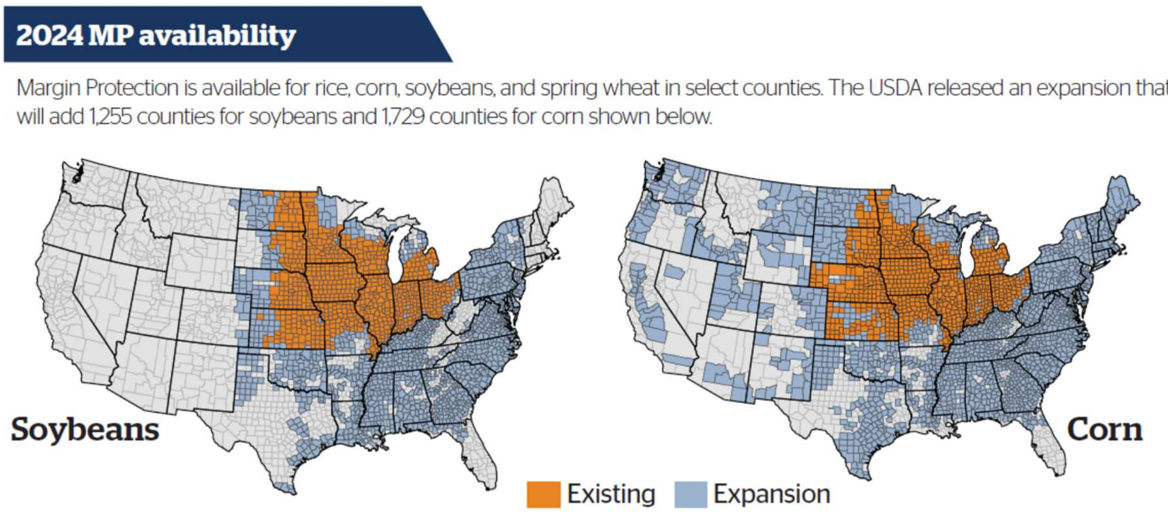
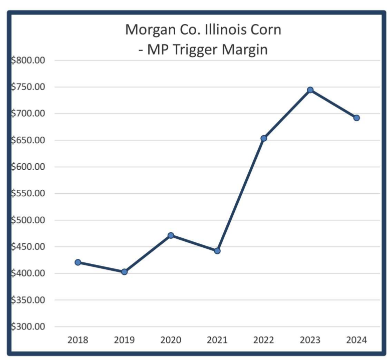
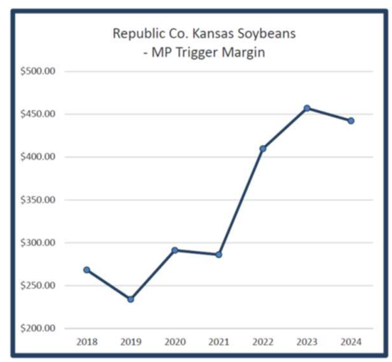
AUGUST 31, 2023

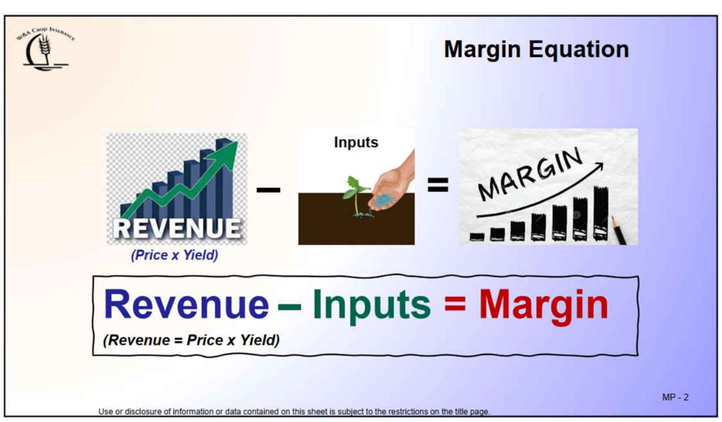
Margin Protection Is Still a Great Deal, and Expanded for 2024!







Margin Protection insurance is available again for 2024, & this year coverage has been expanded to include all 48 continental states for corn and many more areas for soybeans! Conceptually, Margin Protection isn't that complex – it takes the Revenue Protection policy that we've been buying for 20+ years, and subtracts a cumulative input cost number, to create an insurable margin. Those inputs are made up of several variable inputs – urea, DAP/MAP, potash, diesel, & interest – along with a fixed input amount that's the same in every county. Corn, soybeans, & spring wheat, along with those variable inputs, are all setting their base prices for 2024 right now.



2024 trigger margins will likely end up lower than last year due to lower commodity prices, but still above those from 2022. The chart above/left shows the corn trigger margin for Morgan County, Illinois as of this writing. Despite a lower December '24 corn price, insurable county yields are higher in many areas of the country, plus wholesale fertilizer costs are sharply lower right now. Higher yields & lower costs are helping offset the lower corn price. Soybean margins are holding even closer to last year's high. The recent rally in November '24 soybeans has improved the trigger margin, like the chart above/right shows for Republic County, Kansas. Soybean margins don't have the influence of nitrogen like corn does. But corn, soybeans, and spring wheat will have the 2nd highest trigger margin opportunities in the history of this policy!

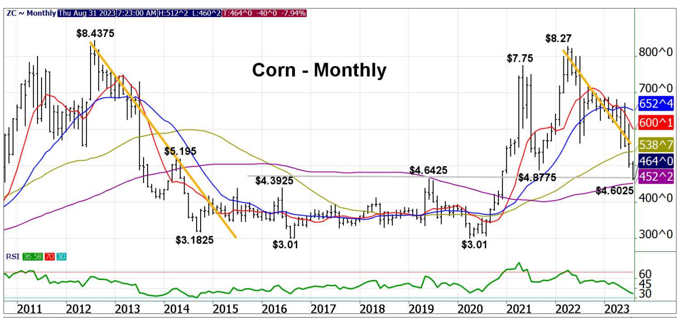
REVENUE IQ from NAU Country

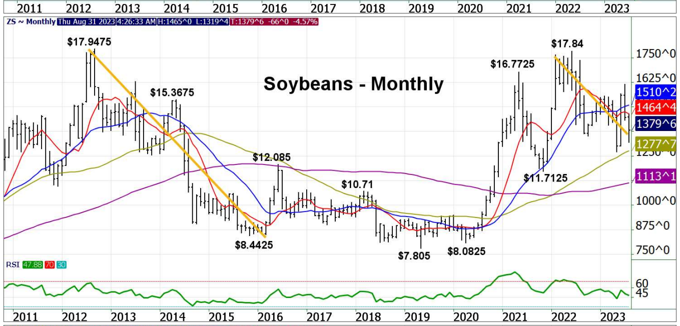
So why Margin Protection this year?

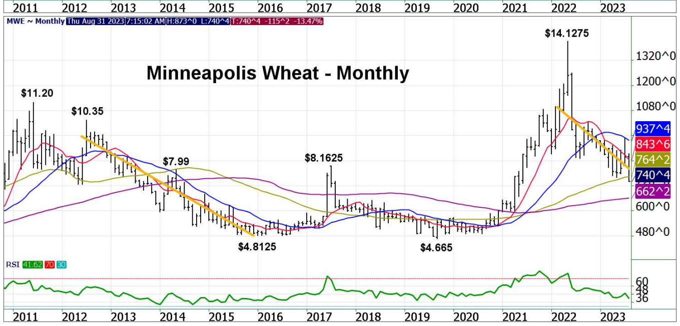
Biggest reasons ***I*** like MP:

1. 95% subsidized county coverage.
2. Put option on 2024 crop – opens a 3rd window.
3. Expenses have become more important.
4. Add cheap/free RP policy in the spring.
5. 1.2 multiplier available!
6. Strong revenues/margins again this year.

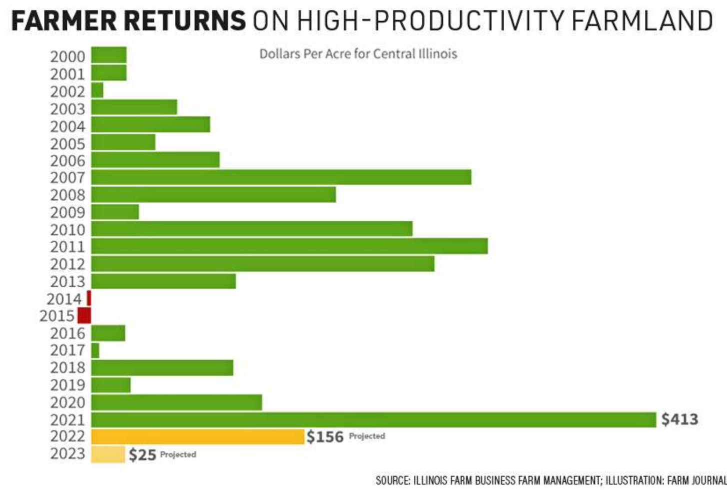
I've said in past years that I view Margin Protection as a subsidized put option for the next crop year, and 2024 is no exception. Before we've even gotten to the new year, we don't have any idea about next year's yields, and I don't have a strong feeling about next year's input costs. But I DO know where commodity prices are trading. And I know the current US & world balance sheet situations into 2024. The US & world S&D's appear to be in stock growth mode into 2024 – similar to the periods following record high prices of 2012, when those prices curtailed demand, encouraged acreage expansion, and triggered higher input prices. And the monthly charts below for corn, soybeans, & spring wheat show what happened in those years following 2012. Prices deteriorated until we hit a point where planted acres stabilized, and demand picked back up. Are we in a similar period right now? The charts are looking that way.







And when we think in terms of margins, here's a chart that **Farmdoc** shared last December. This chart basically mimics the corn monthly chart at left, showing how corn margins tightened and went negative in the middle of the last decade. There's certainly a risk of repeating history in the years ahead.



As I look at 2024, some of my questions are:

- Will US & world grain stocks continue to rise.
- Will commodity prices continue their multi-year slide?
- Will Brazil & Argentina raise combined record crops, as predicted?
- What will happen to fertilizer & fuel prices, with unknowns in Russia, China, & the Mississippi River?

I sure wish I could write that I know what will happen next year. But neither I nor anyone else can say that they do. Some 'plans' that producers could consider right now for 2024 are:

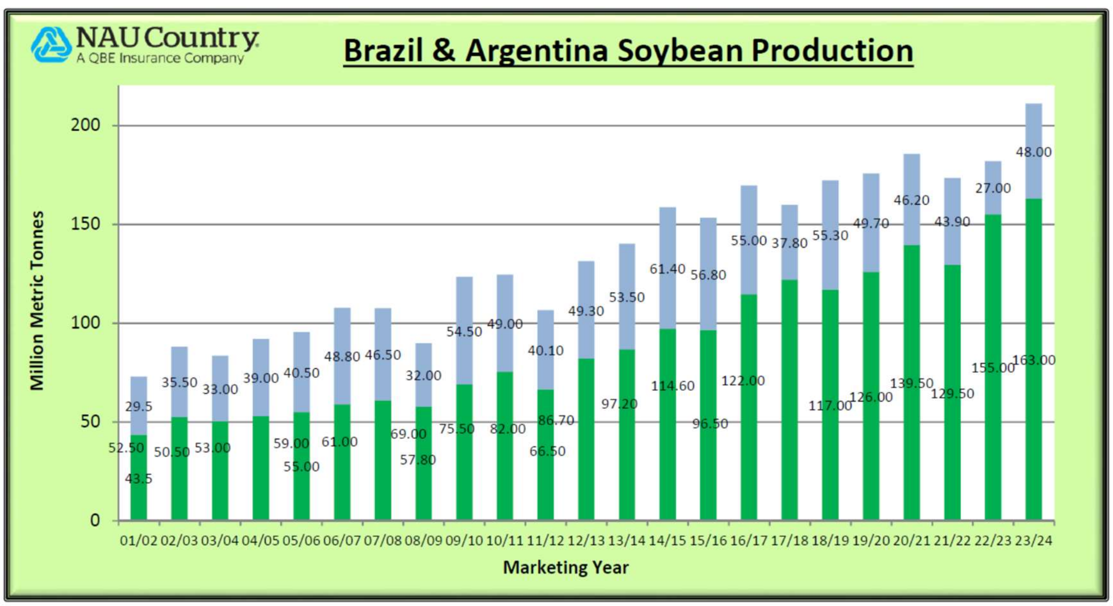
1. Do nothing.
2. Forward sell 2024 crops.
3. Buy put options for 2024.
4. But Margin Protection insurance in September.
5. Wait & buy other coverage in February.

Most farmers aren't looking to sell for next year, or buy options. Doing nothing is probably the most likely scenario, coupled with buying coverage in February. But if you're really looking to lock in a favorable situation for 2024, subsidized at 45%, while leaving the ability to gain if prices improve later, then Margin Protection insurance could be the way to go.

Is there a 'Blue Light Special' this year?

Crop prices for Margin Protection will be lower this year for all three crops. But can they go even lower in the next 13 months? I don't think you can rule that out, with most producing countries having good crops this year and the expansion of acres in Brazil continuing. So utilizing these current 2024 prices to 'lock in' a floor might be a pretty good deal. Lower input costs and higher county yields in much of the country will also help increase insurable margins. Premiums for all three crops are going to be much lower this year, not only from lower futures prices but also because insurance volatility factors look like they'll be 5-8% lower than last year. That's an important factor in determining premiums!

So is there a 'blue light special' for 2024? If so, I think it might be soybeans. **Soybeans** are the market that has rallied lately, and will have an average price near $13.00. Margin Protection premiums for soybeans are much lower this year. And look at the chart of November soybeans – we're trading $2.00 above the contract low from just 3 months ago. Brazil intends to plant at least 5% more acres this year, and Argentina will also likely plant more soybeans. Will US soybean acres rise? The soybean/corn ratio is approaching 3/1, which should make that happen. If you're not going to hedge $13.00 soybeans for 2024, then I'd consider using Margin Protection to establish a 'put option'.



With growing world stocks of corn & wheat this year, both of those crops also look beneficial for Margin Protection. **Corn** price has had a historical advantage using the August-September pricing window for crop insurance, which proved the case in 2023 and could again next year with our export demand struggles. **Spring wheat** has a big issue right now. It's not so much heavy stocks of it, but the pull of the much lower soft wheat market. I encourage you to visit with your NAU Country agent in the days ahead to learn more about this important, subsidized risk management tool!