Crop Insurance 2022

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Gibson Insurance Group

"The Risk Management Specialists"

MARCH 15
(February 28 Arkansas)

Is the last day to either obtain a policy or make changes to your existing insurance policy

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Making 2022 a Profitable Year

What an exciting way to start the year! Whether your views of the upcoming year are good or bad, we know that we are in for a lot of volatility and change. Today, prices for both corn and beans are very profitable for the 2021 crop that we have produced. These markets have shown great volatility with big intraday moves as well as showing some bullish trends.

We are currently being rewarded for the dry weather in South America that has reduced their production. Stocks are likely to be tight this summer as we start growing our 2022 crop. How long will this bullish market last? No one knows the answer to this question. Many different things can change these markets. Russia could invade Ukraine, China could again reduce its imports, we could shift intended acres in this country to plant more acres to one crop over another. So, what does it mean to me as a producer and how can I use all this confusing and conflicting information to make good management decisions?

First, we must recognize that we are selling grain at profitable levels. My marketing plan has changed several times this year as scheduled sales have been pushed back due to market rallies and bullish news. There are few individuals that will sell all their production at the top of the market. Instead of making large sales, I have chosen to make several smaller ones. Each time the price advances above trend line resistance, I have made additional smaller sales. Yes, the market has continued to go up but I have no feelings of disappointment for making earlier sales as all grain has been sold with good profits.

The questions become: at what price will we choose to finish our old crop sales? Should we be looking one to two years in advance to lock in some of these current prices? All of us should remember the old adage that "the cure for high prices is high prices". This old saying has always remained true and will continue in to the future. When prices get too high, either the end users will find a substitute product or producers will find a way to grow more of this commodity until prices return to sustainable levels.

Very few producers that I work with are comfortable with forward pricing an unplanted crop two years in advance. This includes me. However, there are ways to establish a price floor regardless of production issues. One of these ways is to use the options market and buy a put option.

Today, if a person were to buy a November 2022 soybean put option (right to sell) at $13.70 it would cost 96 cents per bushel. By

IMPORTANT

ARC or PLC

Election for the 2022 crop year

Deadline March 15

Contact your local Farm Service Agency office

Making 2022 a Profitable Year (cont.)

doing this a producer could establish a price floor of $12.74 for 2022 soybeans. This looks like a good minimum price for this fall but the cost to do this is nearly $50 per acre which we will need to add to our crop budgets. Is this an expensive or cheap investment? The answer to this all depends on what happens to the markets this summer. If beans were to fall to $10 you would feel like the smartest person in the world as you would have added $2.74/bu to your bottom-line next fall. However, if we were to have a drought in this country and beans rose to $20 then you would have spent the extra cost.

With the short crop in South America, we are going to have good prices through the spring and into the summer. The crop insurance revenue price is established during the month of February and is likely to come in at a very high level, thus insuring us a good price for 2022. After this price is established, it will be our job as producers to make decisions during the summer to market the 22 crops as weather dictates.

There are several new and existing private crop insurance products that we will explain later that can add on to this guarantee. Each year many of these are offered but few times are they cost effective. This year may be the exception where these products might be attractive to significantly add to your minimum price floor.

Fertilizer prices may be volatile all year long. Thus far nitrogen prices are up more than 200% with phosphate and potash prices significantly higher as well. The biggest move we may see in the future might be the potash market as tensions rise with Russia who is one of the largest exporters of potash. This is more of a political issue than a supply issue as tariffs and invasions could greatly upset these markets. Instead of this being only our problem, it has become a worldwide problem for all countries.

Inflation will remain an issue for 2022 in all aspects of our businesses. Even with inflation, this could be a great year for agriculture. If you are old enough to remember the 1970's, we had high inflation and there was profitability in the ag markets. Anytime inflation is higher than interest we really have a negative interest rate. The assets we own are appreciating faster than the cost of ownership. This is the very thing that has driven the current housing market and the prices of land. Over the years a lot of wealth has been created because of a high debt load during times of inflation. On the flip side of that, the 1980's saw high interest and declining values which caused the death of many businesses that were caught with too much debt. It's all in the timing.

Going into 2022 I would challenge each of you to make a budget and ask yourself these important questions.

- What will it cost to produce each crop?
- How can crop insurance help protect my bottom line?
- What will prices need to be for my operation to make money?

All these questions are very important to answer prior to planting the crop. Then the big question becomes what assets do we have in our operations that are not fully utilized and how can we use them to add to the bottom line? The current administration is looking to subsidize cover cropping practices and carbon credits. Even grain only farmers may benefit from planting cover crops to be harvested by livestock operations or to collect carbon credits. Thinking outside of the box or doing things we have never done before may be profitable in years to come. By doing these few steps you can insure yourself a profitable 2022 and beyond.

How Can Crop Insurance Protect You?

2022 is shaping up to be an interesting year for agriculture. With high input costs, high prices, political uncertainty, and possible supply chain issues, producers are looking for cost effective ways to protect their operations the best way possible. Utilizing all the products/tools crop insurance offers is not going to be the answer to all your problems, but there are many effective options to consider.

The month of February is very important because of price discovery. During this time, insurance prices are set for spring crops. We look at the CME Futures Contracts for soybeans in November and December for corn. The average daily close of these contracts are used to set the spring prices and in turn affects your coverage. The higher the spring prices, the higher your per acre guarantee will be. I predict the prices we see during this February Price Discovery will be higher than years past. Premium prices will also increase with higher prices, but it is important to remember that the volatility in the February markets will also affect premiums. These are the factors that set your crop insurance coverage, per bushel price, and premiums.

Utilizing your basic crop insurance policy is something we are all familiar with. Through your basic policy you are insuring overall revenue guarantee. Your revenue guarantee is figured by your bushel guarantee from your production history database and the set spring price. It is important to know your bushel guarantees so you figure how much coverage is needed to protect your operation. When you feel your guarantees are low that is when we know it is time to see if it is cost effective to raise your coverage levels. Looking at your coverage level each year is a good practice to have, but this year it will be as important as ever. As producers, we want to insure we are protecting the money we are putting into growing a crop. You should ask yourself if your current coverage levels will cover your increased expense for this crop season. This answer will be different for each person and might be hard to come to a clear decision. To help answer those questions we will be sending out approved yield guarantees so you can work through this decision. We are also available to answer questions or provide you with any further information you may need.

Two major products that you probably already are familiar with are replant and hail. These have been widely used in the past. The replant option gives you extra replant coverage on top of what is already built into your basic policy. This protects your option to replant if you plant prior to the initial plant date and starts paying on the first acre instead of adhering to the 20 acre/20% rule. Hail functions as its own policy that gives you protection against hail, fire, and wind over the coverage of your base policy. Hail also offers coverage for perils such as transportation, storage, and vandalism that are not necessarily covered in your base policy.

Beyond these two options and your basic crop insurance policy there are other private products offered that can help add protection to your operation. These products can sometimes be pricey, but in our current conditions they are proving to be cost effective.

-**RPP: Revenue Price Protection** is a very simple product that increases the set spring price by a percentage determined by you up to 20%. For example, if the spring corn price comes in at $5.50 and you purchase RPP at 10% you would add $0.55 per bushel to your guarantee. Your new per bushel spring coverage price will be $6.05.

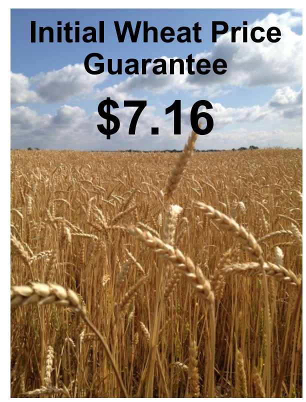
- RPO-MCO: Revenue Price Option with Market Coverage Option allows you to increase your spring coverage price up to $0.25 higher on corn and $0.60 higher on soybeans than the established base price. Next, this allows you to pick any CME daily closing price up until March 15th

8 Steps to a Successful Marketing Plan

1. *Establish realistic goals*
2. *Identify your decision making environment*
3. *Identify your beliefs*
4. *Develop a price outlook*
5. *Consider cost of production*
6. *Consider risk-bearing ability*
7. *Avoid emotional decisions*
8. *Don't let ego get in the way*

Richard Brock

"Grain Trading—Basics of Fundamental and Technical Analysis"



How can Crop Insurance Protect You? (cont.)

and make that your price guarantee for the spring. This allows you to watch the daily markets and if you see a price you like, act on it. The second option is to add the discovery period of May, June, July, or a combination of these months. This allows you to capture potential higher future prices in each of these 3 months. With RPO- MCO you can use these options in a variety of ways to raise your spring guarantees up to $1.00 on corn and $2.00 on soybeans over the base spring price while still guaranteeing your final price won't come in lower than $0.25/ corn and $0.60/soybeans over the set spring price.

-BAND: BAND coverage allows you to have supplemental yield, revenue, and revenue price harvest exclusion coverage in addition to your base policy. BAND is the most customizable product for each operation, but the real value lies in the option to increase your spring and harvest price. You can select to increase your spring and harvest price guarantee for a select percentage higher than the base price. For example, if the spring price of corn is set at $5.50 you can elect to raise this 20% to $6.60. If the harvest price comes in at $6.00 you get the 20% increase to make your new harvest price guarantee $7.20.

These products can prove to beneficial alone or combined in a number of ways. On my operation I am choosing to go with the replant and RPO-MCO. With increased input for this planting season, I wanted to review my coverage to ensure I was protecting my investment. First, with replant I have personally seen this pay off for my operation by giving me the extra coverage I need to make those replant trips across the field when needed.

When it came to looking at how to increase my overall guarantees I found RPO-MCO to be a more cost-effective solution for my operation rather than increasing my coverage level from 75% to 80%. I will be combining 2 RPO-MCO options ($0.25/ $0.60 over spring price and adding price discovery to May-July). The premium prices will vary for every operation, but my cost for this will be $13.48 acre/corn and $9.16 acre/soybeans. These prices added a minimum of $31.50/corn and $24.00/ soybeans guarantee per acre while giving me the potential to add up to $126.00/ corn and $80.00/soybeans.

There are many ways to evaluate these premiums and increased guarantees. When first weighing my options, I was hesitant to spend any more money for insurance on this upcoming crop. As I studied this product I considered other input costs. For corn, this product costs about the same as applying an additional 13 pounds of nitrogen. The potential return could range anywhere from $0.25 to $1.00 extra per bushel to my guarantee. For my operation the additional coverage looks as if it is a good value compared to spending the money elsewhere in producing the crop.

Will this option always pay off? The answer is no! Today we know that we will be facing tight grain supplies which should lead to good prices until fall. What we don't know is what mother nature has planned for us this year. If we have hot dry weather and prices advance even further, this product will not pay off as the fall harvest price for crop insurance could

How can Crop Insurance Protect You? (cont.)

be higher than the additional coverage we purchased. If that is the case this money will be spent for nothing. It is not probable that the grain markets will continue to advance from these levels through the entire summer. There is always a top and a decline as products become too high priced and consumers start looking for substitute products. RPO-MCO is a new product I will be using for my operating and then evaluating its performance to see if it was a valuable investment.

While this is just one example of how these products can help protect your bottom line, this is not the only answer. The value of these products are different for each operation. If you see an option you'd like more information on or would like to utilize, I encourage you to contact our office to discuss the possibilities.

We are happy to help answer questions as you analyze the benefits to your operation.

Spring To-Do Checklist

To ensure you crop policy is ready for spring planting, please review the below checklist to make sure you are being properly protected this year. As a reminder, all changes must be made by March 15th.

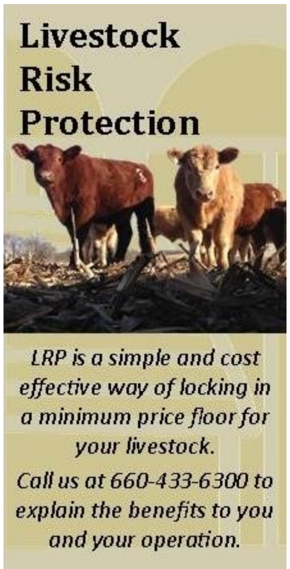
- ☐ Have you reviewed your coverage levels for the upcoming year?
  This includes your coverage per acre and bushel guarantee.
- ☐ Do you have enough coverage, either bushels or dollars, for the coming year?
- ☐ Have you reviewed the crop insurance options available to see how they could benefit your operation?
- ☐ Have you signed up for our text alerts to receive up to date important information regarding replant, plant dates, acreage reporting deadlines and more?

If you answered no to any of the items please contact our office before March 15 so we can assist you in completing these items.

- ☐ Are you breaking out any new ground that has previously not been cropped?
- ☐ Is any ground in your farming operation changing?
  Are you gaining new acreage? Are you farming in a new county? Have you lost any acreage from prior years?
- ☐ Have there been any entity changes to your policy?
  Has your martial status changed? Have you created a new entity (LLC, Trust, etc.) for your operation? Are there people who have interest in your entity listed/not listed on your policy?

If you answered yes to any of the items please contact our office before March 15 make the proper changes to your policy.

Strong Outlook for 2022 Cattle Market



Often, when we as cattle producers look at the current cattle market we convince ourselves it is not as good as it really is. We tend to remember the extreme profits and highs generated just a few years ago. Truth be known, the cattle market has done well over the last few years, and even more so within the last 12 months.

Feeder cattle are currently trading in the $166 range. This is a price increase of 19% over a year ago. Most producers would agree that cattle prices are good but argue the cost of inputs have also increased, in particular, corn. Yes, we have seen an increase in corn, but not as much as one might think. Today the price of corn is just up 13.31% over this time last year. Forage prices in the Midwest do not reflect this same price increase. Prices have remained relatively constant during the last 12 months. The good news is feeder cattle depend more on forage than they do grain during this growing stage. Fed cattle are more grain intensive to produce using a more considerable amount of grain. Fed cattle prices have increased 21.65% over the past year, which have provided good margins in 2021.

Do we think the market will remain strong in 2022?

One lesson we have learned since Covid is how volatile this market can be. We can recall the recent challenges we have faced in the cattle industry that have shook the market to the core. Mad cow disease, the Tyson Packing Plant fire, and worker shortages causing shutdowns. These all took extreme tolls on the price of cattle. The industry has been very resilient and bounced back each time. Because of this I believe this answer is two-fold in how the cattle market is likely to stay strong.

First, our cattle numbers are down to levels similar to the 1950s. Reports show we have liquidated 3% of our cow herd in 2020 and another 10% in 2021. Dairy cow slaughter is also up 6% from last year. Current beef cow inventory for 2022 is estimated at 30.2 million head. This is down 1 million from just the last few years. To top this off we are seeing slaughter weights come down as feedlots are staying relatively current with their inventories. I believe this is because more feedlots are slaughtering at lower target weights as opposed to "over" finishing an animal. This is truly more cost effective due to the high grain prices. There is no data I can point at to prove this, but this is my observation.

The second reason the market is likely to remain strong is because of demand. As retail beef prices have increased the demand has not seemed to be affected. This means our product has remained very inelastic. 2021 exports were up 17.5% over the prior year. In fact, 2021 beef exports reached 115,709 metric tons in October. That means in just the first 10 months of 2021 we reached $8.53 billion in exports, which is the highest in history. Early beef export projections show 2022 exceeding the already record highs from 2021.

This is all positive news, but we must remain cautious. The livestock market is

Strong Outlook for 2022 Cattle Market (cont.)

not like the grain markets where we can store a commodity over long periods of time. When an animal is finished it must be moved to slaughter regardless of what else is happening in the world. When we see events like mad cow disease, African swine fever, and diminished packing capacities we feel what these challenges can do to our market. Supply chain issues often linger as a result of these challenges and are hard to overcome.

I also have great concern about the current world political tensions and how they will affect the markets. I believe meat markets may be more at risk than grain markets due to the end consumer purchasing our products. To what degree the markets will be affected is hard to predict but all markets from grain to energy are at risk.

My operation is going to continue finishing cattle and backgrounding calves in 2022 as we have done in the past. However, we are going to be more proactive when it comes to locking in input costs due to the current inflationary pressures. It is important for me to establish my input costs to more effectively budget to keep the operation profitable.

I will continue to put a minimum price floor under my cattle by utilizing LRP when prices are profitable. When Covid hit the market dropped $50/cwt, but I was protected by my LRP coverage. My policy protected me against this $50 drop and I was able to stay profitable in a declining market. Cattle are expensive to produce, and the market is too volatile for my operation to consider going without this coverage.

In all, we are looking to have a prosperous 2022 and are excited to see what this year will bring. There will be challenges and opportunities that we cannot predict, but like every farmer I remain optimistic about the year to come.

IMPORTANT

If your farming entity has changed from last year either by death, divorce, or business type you must notify the office for a policy change immediately. Failure to do so could have serious implications for your crop coverage.

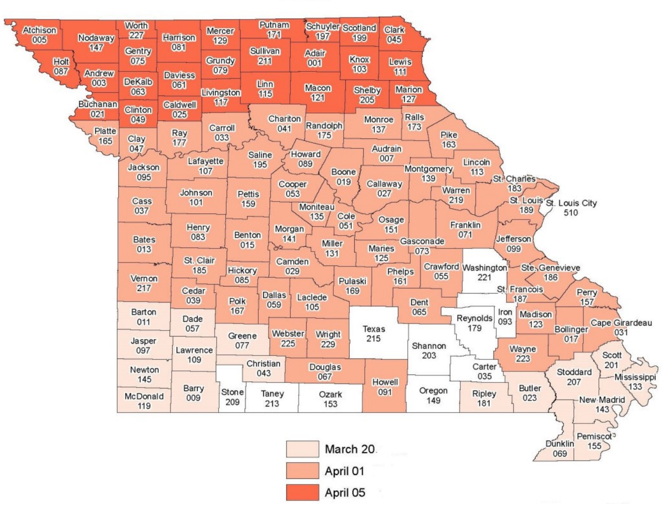
If you are unsure that your policy(s) correctly identify your entity type please contact the office as soon as possible.

March 15 is the deadline for spring crops

(February 28 is the deadline for Arkansas)

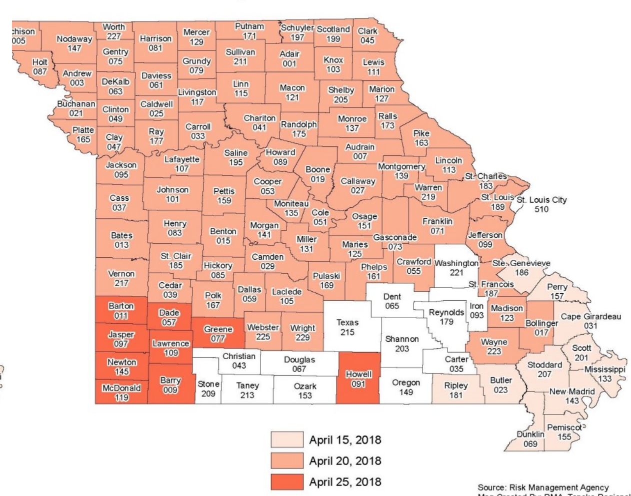
Initial Planting Dates

Corn



Arkansas March 11
Iowa April 11

Soybeans



Arkansas April 16
Iowa April 21

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Crop Insurance 2022

Important Upcoming Dates and Reminders

1. Price Discovery for Crop Insurance Coverage: This period runs from February 1 to February 28 to determine the initial spring coverage price. Prices are based on the average of the CME's November soybean and December corn contracts.
2. New Break/ CRP: If you plan to break out grass or CRP this upcoming year please let our office know as soon as possible.
3. **Deadline to make changes to your 2022 crop insurance policy is March 15**. This includes coverage levels, entity changes, or any other policy changes.
4. ARC/PLC elections at FSA are due by March 15th.
5. You are eligible to sign up for ACH payments to receive your indemnity payments. This can speed up the rate which you receive your payments. Contact our office to sign up.
6. If you have to **replant** any acres this spring contact our office first. There is built in replant coverage on your MPCI policy that could be of benefit to you.

Thank you for your business!

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