



MONDAY, AUGUST 30, 2021

Margin Protection 2022 - A Great Opportunity!

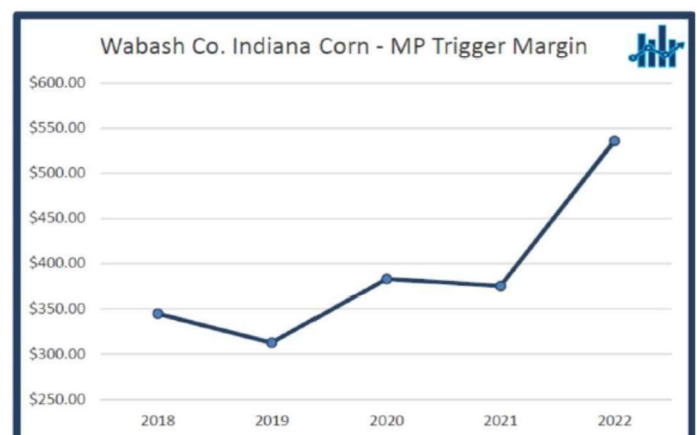
by Rich Morrison, NAU Country VP of Farm Services

The 2022 crop year will be the fifth year that Margin Protection insurance will be available in many areas. And it's easily the year when Margin Protection insurance is the most attractive. That's because of how high new crop 2022 futures prices are trading, because of the spike in input costs, and because of the opportunity to possibly insure the highest revenue and margin ever!

For those not familiar with Margin Protection insurance, here are a few of the basic details:

- 1) MP is available for corn, soybeans, & spring wheat in certain counties.
- 2) MP is a county-based coverage, and uses the same expected & final yields as ARPI, SCO, & ECO policies.
- 3) MP offers coverage up to 95%, the highest subsidized level of coverage available.
- 4) MP also offers a protection factor of up to 1.2, which means a loss in margin would be multiplied by 1.2 for payment.
- 5) The price discovery period for 2022 commodity futures, along with variable input costs – urea, DAP, MAP, potash, diesel, & interest rates – is taking place now thru September 14.
- 6) Producers can add an underlying individual policy – RP, YP – in the spring, and receive a premium credit toward the MP policy for transferring some amount of dollar risk from the county-based MP policy to the individual RP policy.

Margin Protection insurance is what it says – an insurance policy that is based on a margin, or revenue minus expenses. The 4-year history of this policy has shown us that the change in variable input costs, though important at the farm level, hasn't had a large impact on the coverage of this policy. At the end of the day, price and yield are the two components that have the biggest impact on the policy. Even with variable inputs for 2022 up substantially, because of this year's rally in grain prices, insurable margins are MUCH higher for 2022.



Insuring your crops. Ensuring your success.



REVENUE IQ from NAU Country



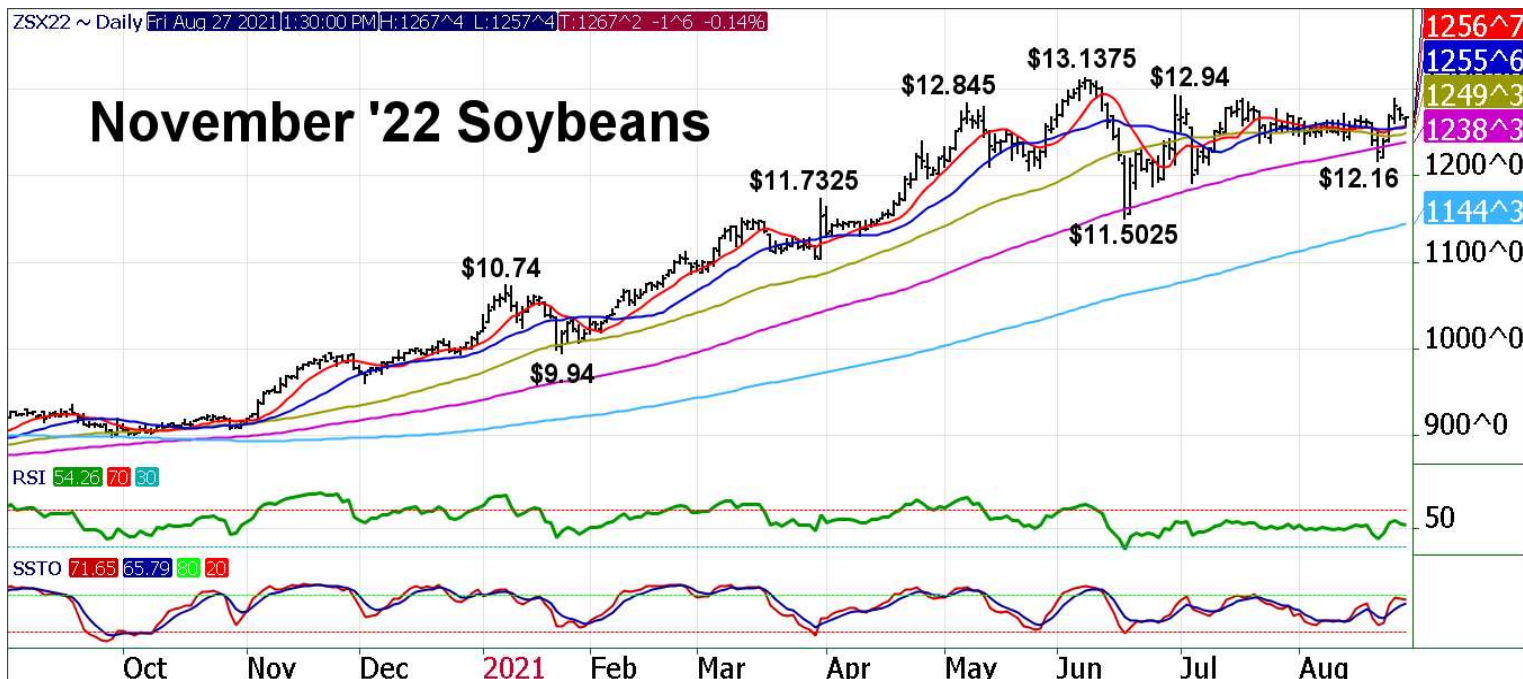
A year ago, the corn base price for the 2021 Margin Protection policy was \$3.82. That was down a bit from the previous two years, and didn't represent an opportunity to lock in much of a profit margin. As of this writing, the 2022 MP average price is running \$5.11. Plus, many insurable county yields are higher for 2022 vs 2021. Despite the increase in expenses, the change in revenue as far outpaced those.

The chart of **December '22 corn** shows this market currently trading within 20 cents of its spring contract high. But what are most producers doing about it? I'm still receiving questions from producers about what to do with remaining 2020 bushels in the bin. And then, there's the 2021 crop that's about to be harvested. Most producers' focus will be on that crop, and how to market those bushels at harvest or beyond. I'm guessing most won't be in a huge hurry to start locking in 2022 prices. But there are reasons why that *could* be an issue. What if...

- What if China doesn't step up to the plate next year as a huge corn buyer, like they did in 2020-21. Did they get enough ownership to cover their needs? Will they be buying more from the Ukraine after they harvest a big crop? Will they continue the recent trend of buying feed wheat & sorghum as a feed substitute?
- What if the US government throws another wrench at us with more talk of granting biofuel blending waivers to small & medium sized refiners? Or even large refiners?
- What if the situation in Afghanistan gets worse? What if ocean freight costs go sky high? Will that put a slowdown on world trade?
- What if Brazil grows the record crops next year that their government is currently forecasting? They're expecting another big jump in planted acres this fall, with higher US futures prices.
- What if US producers plant 94-95 million acres of corn next spring? Our producers love planting corn and seeing big yields. Could carryout quickly jump back to the 2.0-3.0 billion bushel range?



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The same things can be said about **November '22 soybeans**. Last year's Margin Protection base price was a meager \$9.36, while the 2022 running average is currently at \$12.57. The opportunity to lock in a margin WAY above last year is currently presenting itself. I'm not as concerned about immediate export demand for soybeans disappearing, or demand from biofuels as well. But I am concerned that Brazil will potentially grow a massive crop this year, which could eventually cut into the demand for US soybeans. And producers in the US will plant as many acres as they can at these prices.

Minneapolis September '22 wheat looks very attractive with price near \$8.00! Wheat has spent the bulk of the last 8 years in the fours, fives, and sixes. To be able to lock in a price close to \$8.00 ahead of a year with an expected increase in planted acres seems like a great opportunity as well.





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any combination, would trigger an indemnity payment. If we remove expenses from the equation by making an assumption that they wouldn't change, then you're essentially getting a 95% county revenue policy, in this example with a trigger of \$1,026. To me, this is HUGE. My question is,

“Can you afford NOT to lock this revenue/margin in?”

Crop Information:
Iowa, Tama, Corn, Grain, Non-Irrigated
Edit

Rate Yield: 195.0
Approved Yield: 210.0
Acres: 1,000
Share %: 100%
RMA Expected Yield: 209.9

Show Matrix by:
Total
Acre
Unit
100% Share Acre
100% Share Unit

Matrix Formula:
Crop Value + Indemnity - Premium = Net Margin - Cost Of Production = Profit

Add Matrix
Cost of production: \$766
MP Final Cost: \$397

Get Matrix
Delete
MPCI Products:
☒ RP(80)
☒ MP-HPO(95/120)
Private Products:
Final Price:

Farm Yields	145	155	166	176	187	197	210	231	241
County Yields	135	144	154	164	174	183	195	215	224
\$7.15	\$481.01	\$403.79	\$317.99	\$232.19	\$146.39	\$69.17	\$(33.80)	\$(72.61)	\$(72.61)
\$6.60	\$438.49	\$367.21	\$288.01	\$208.81	\$129.61	\$58.33	\$(36.71)	\$(72.61)	\$(72.61)
\$6.05	\$396.00	\$330.66	\$258.06	\$185.46	\$112.86	\$47.52	\$(39.60)	\$(72.61)	\$(72.61)
\$5.50	\$353.48	\$294.08	\$228.08	\$162.08	\$96.08	\$36.68	\$(42.52)	\$(72.61)	\$(72.61)
\$5.15	\$326.43	\$270.81	\$209.01	\$147.21	\$85.41	\$29.79	\$(44.37)	\$(72.61)	\$(72.61)
\$4.90	\$357.36	\$304.44	\$245.64	\$186.84	\$128.04	\$75.12	\$4.56	\$(72.61)	\$(72.61)
\$4.65	\$397.86	\$347.64	\$291.84	\$236.04	\$180.24	\$130.02	\$63.06	\$(48.54)	\$(72.61)
\$4.40	\$438.36	\$390.84	\$338.04	\$285.24	\$232.44	\$184.92	\$121.56	\$15.96	\$(31.56)
\$4.15	\$478.86	\$434.04	\$384.24	\$334.44	\$284.64	\$239.82	\$180.06	\$80.46	\$35.64

The matrix above shows 81 possible combinations of yield & futures price, and shows what the net value of insurance would be with those outcomes. The most likely scenarios are considered to be the darkest green. If we end up on the top/right portion of the matrix, you'd have to pay the premium for the policies (95% Margin Protection + 80% Revenue Protection – Credit), but you would have a yield and price combination so high that it would exceed the \$1,026 revenue trigger that we previously discussed. What a year! If we end up with a 215 county yield and a harvest price of \$4.40, which I've highlighted, we're receiving a net \$15.36 after paying the premium, but at still looking at a fantastic revenue year. And if we're to the left of that on the matrix, the net indemnity from insurance would bring the county revenue back up to \$1,026.

I was visiting with a producer last week about this policy and the historically high trigger revenue/margin opportunities it provides for the 2022 crop year. He agreed that he wasn't very likely to go out and sell grain for next year at this point. He still had plenty to accomplish for the 2021 crop year. But he also recognized the value of this policy. With a revenue of more than \$1,000, and a Trigger Margin on the policy of over \$600, he was actually contemplating buying this policy and using it to go find some more land to farm next year. I'm not suggesting that everyone should do that, but this year may be the year where if you haven't used a Margin Protection policy in the past, you definitely consider it for 2022. Because if the prices of 2022 December corn, November soybean, and September spring wheat futures fall much between now and February or even by next harvest, we will have missed a great opportunity. History has shown that following years with large price run-ups that commodity prices usually trend back down (see 2013 & 2014). Will that happen again in 2022?



REVENUE IQ from NAU Country

Producers should consider Margin Protection because:

- 95% Coverage – highest subsidized coverage available;
- County-Based – good for producers w/ yield history > county;
- Revenue Insurance minus expenses creates insurable margin;
- Only takes a 5% loss in margin to begin triggering an indemnity;
- Base Prices set now thru September 15 for 2022;
- **Are you going to farm in 2022? Do you have risk that margin will decrease before February or by harvest 2022? Is there another way that you will consider mitigating that risk?**



MARGIN PROTECTION BENEFITS YOU!

NAU Country's Margin Protection (MP) plan of insurance is area-based and provides coverage against an unexpected decrease in operating margin (revenue less input costs), caused by reduced county yields, reduced commodity prices, increased prices of certain inputs, or any combination of these perils.

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