



## *Agricultural Risk, Policy, & Insurance Collaboratory*

# Crop Market & Farm Policy Outlook

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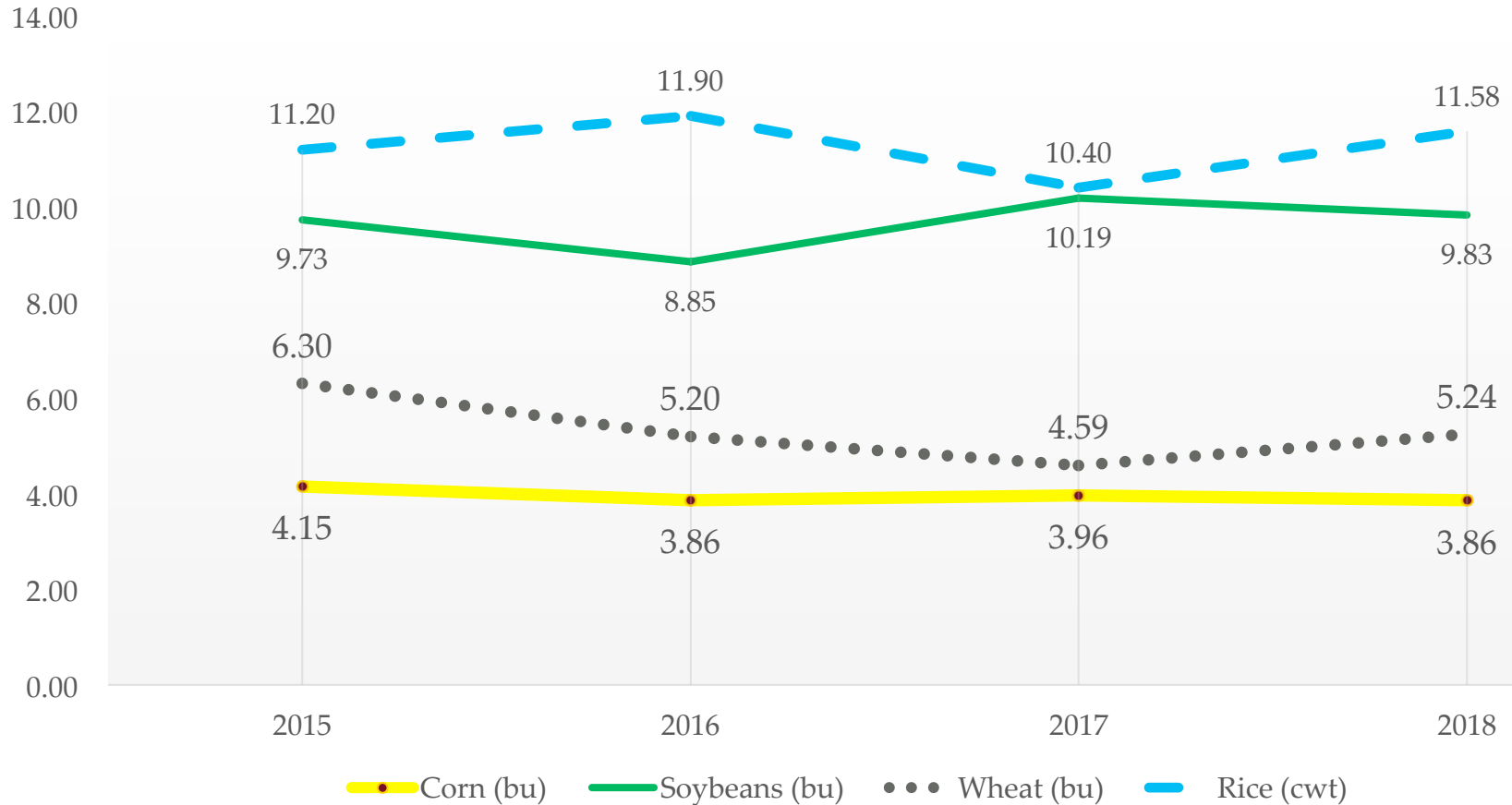
**Brian Williams**

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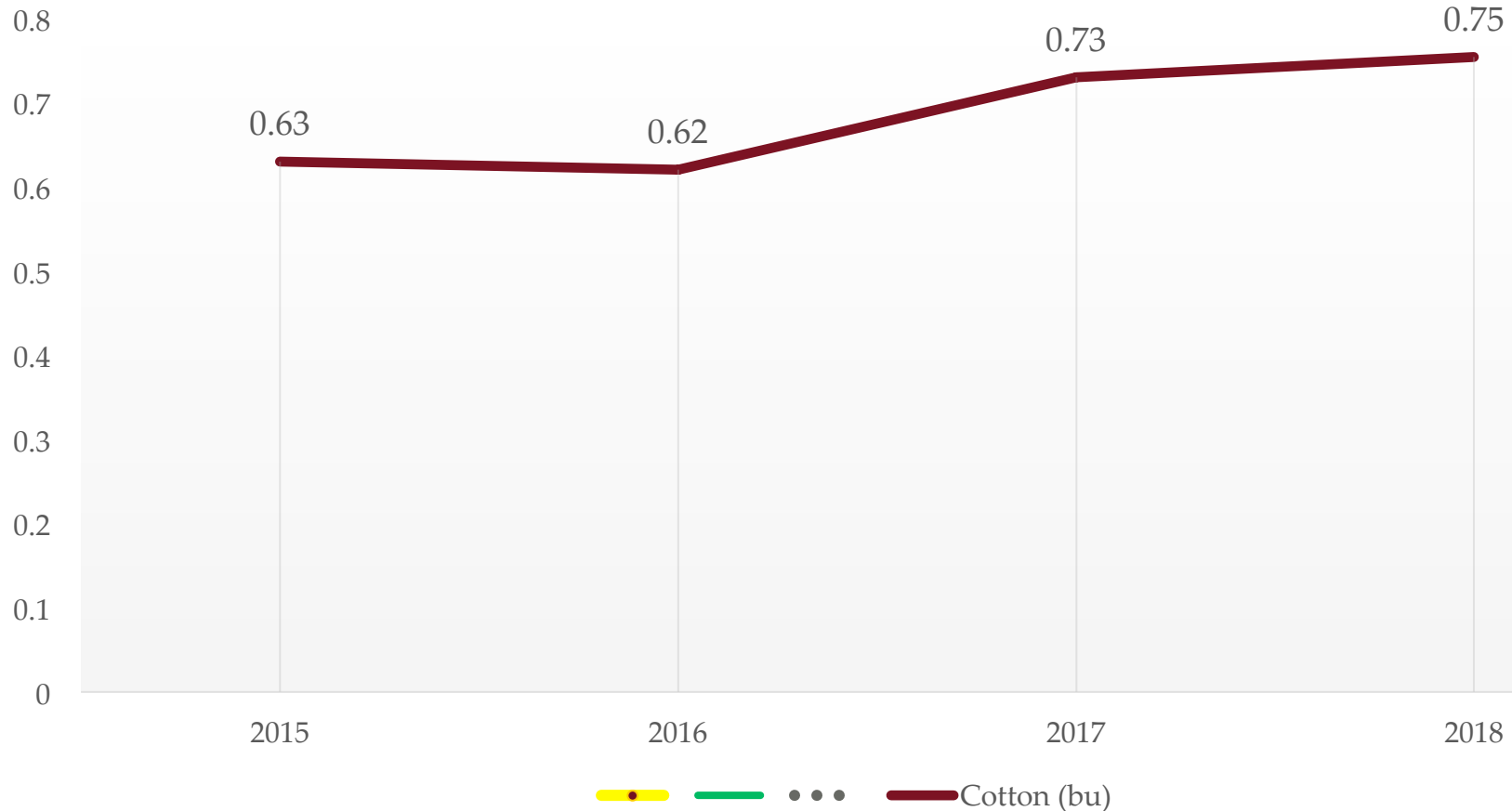
# Cutting to the Chase for 2018

## Four Year Trends in Preseason Price Expectations



# Cutting to the Chase for 2018

Four Years Trends in Preseason Cotton Price Expectations



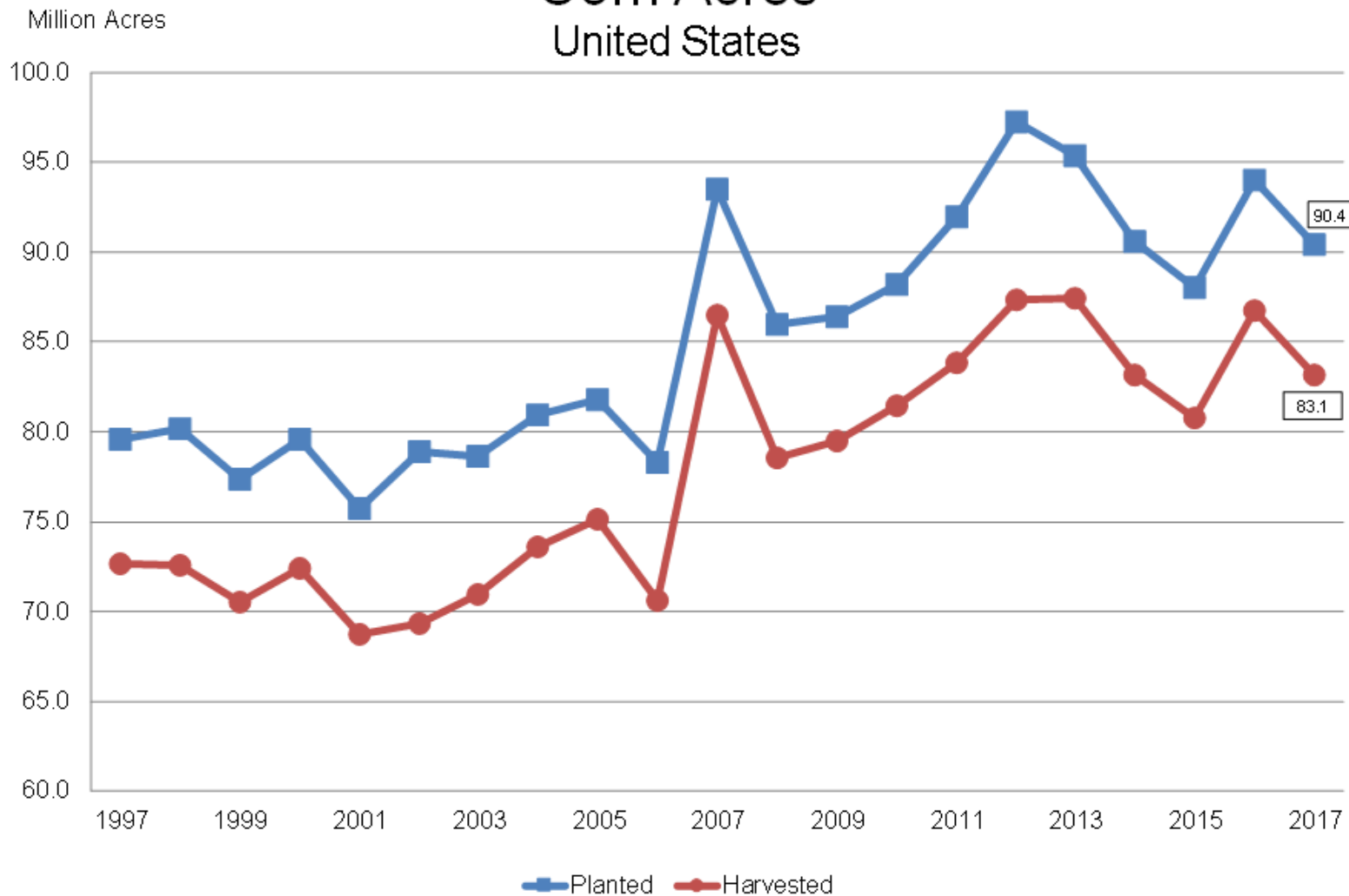
# Corn



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# Corn Acres United States



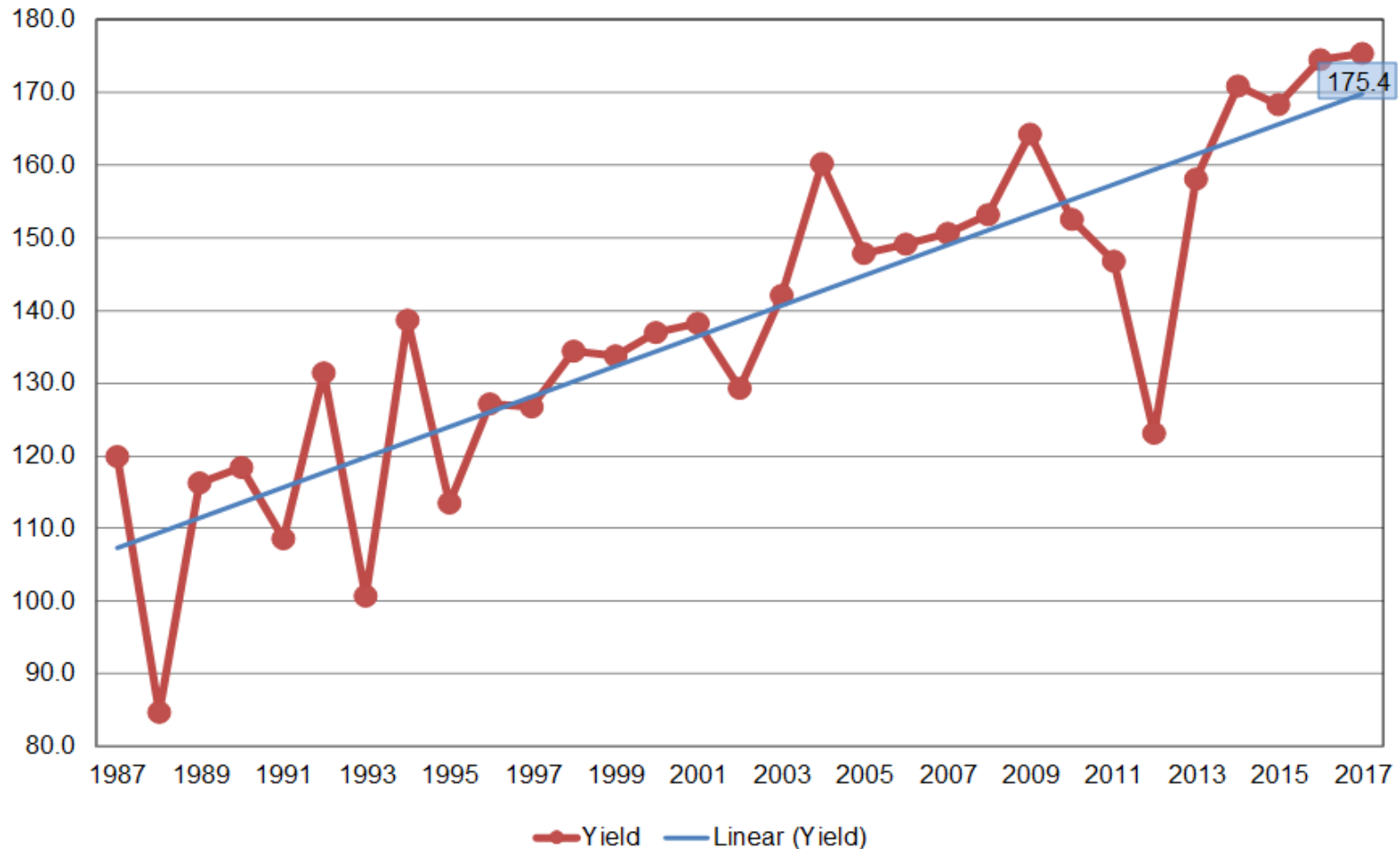
USDA-NASS  
10-12-17



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# Corn for Grain Yield United States

Bushels per Acre



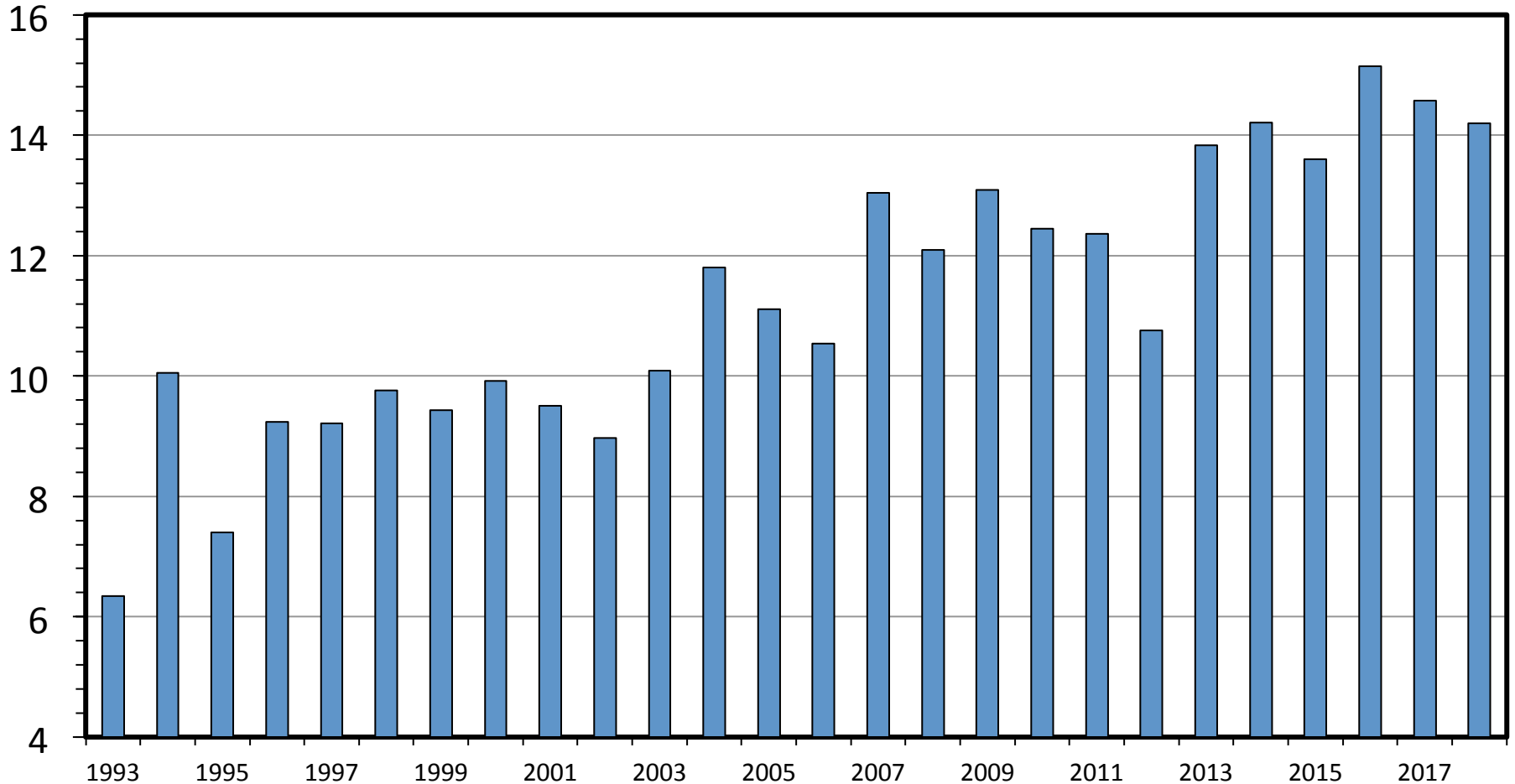
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# US ANNUAL CORN PRODUCTION

Crop Year

Bil. Bushels



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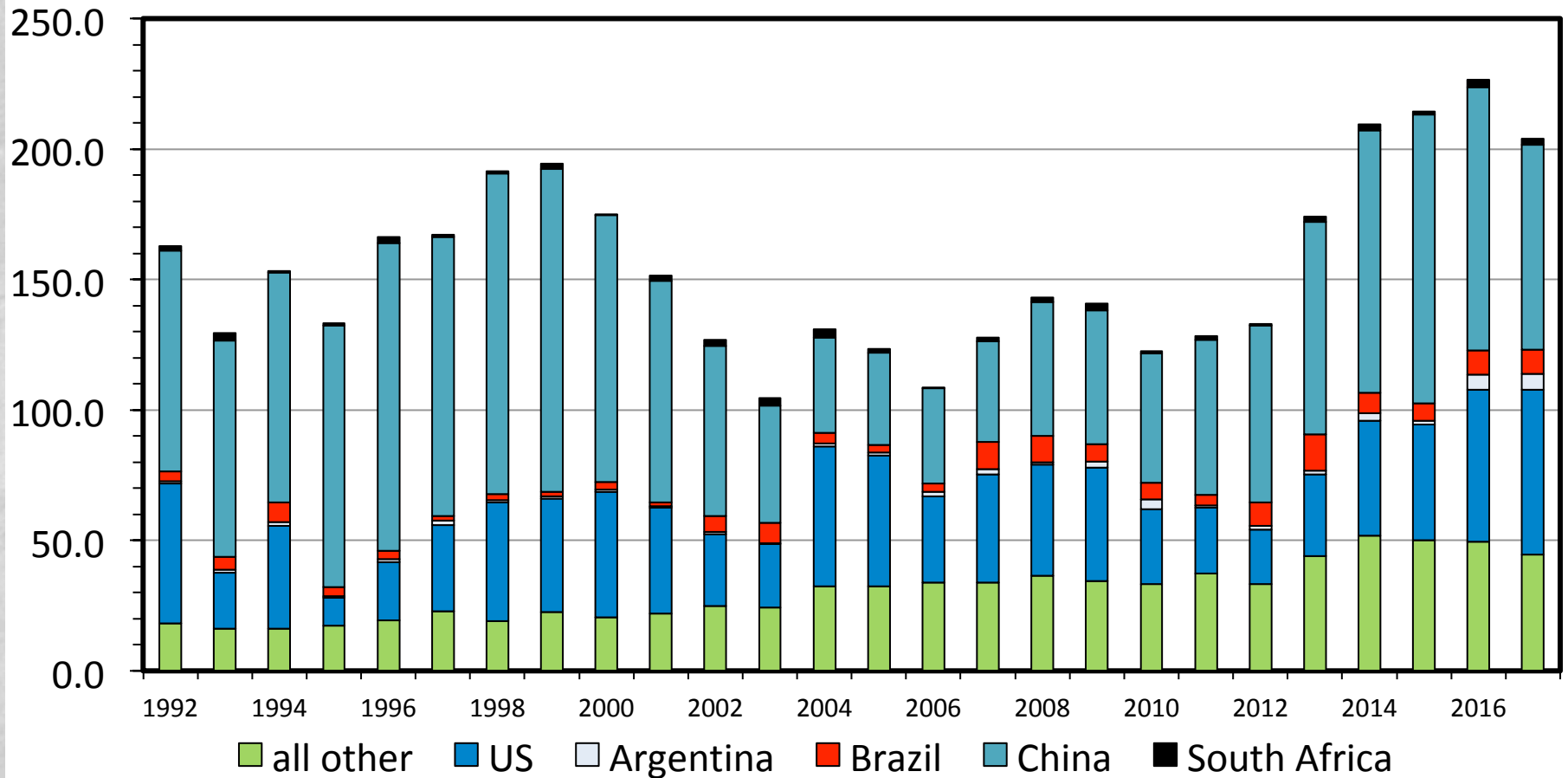
Data Source: USDA-NASS, Forecasts by LMIC  
Livestock Marketing Information Center

G-NP-07  
11/11/17

# WORLD CORN ENDING STOCKS

Crop Year

Mil. MT



Data Source: USDA-FAS

Livestock Marketing Information Center



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11/16/17



# Soybeans



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# Soybean Acres United States

Million Acres



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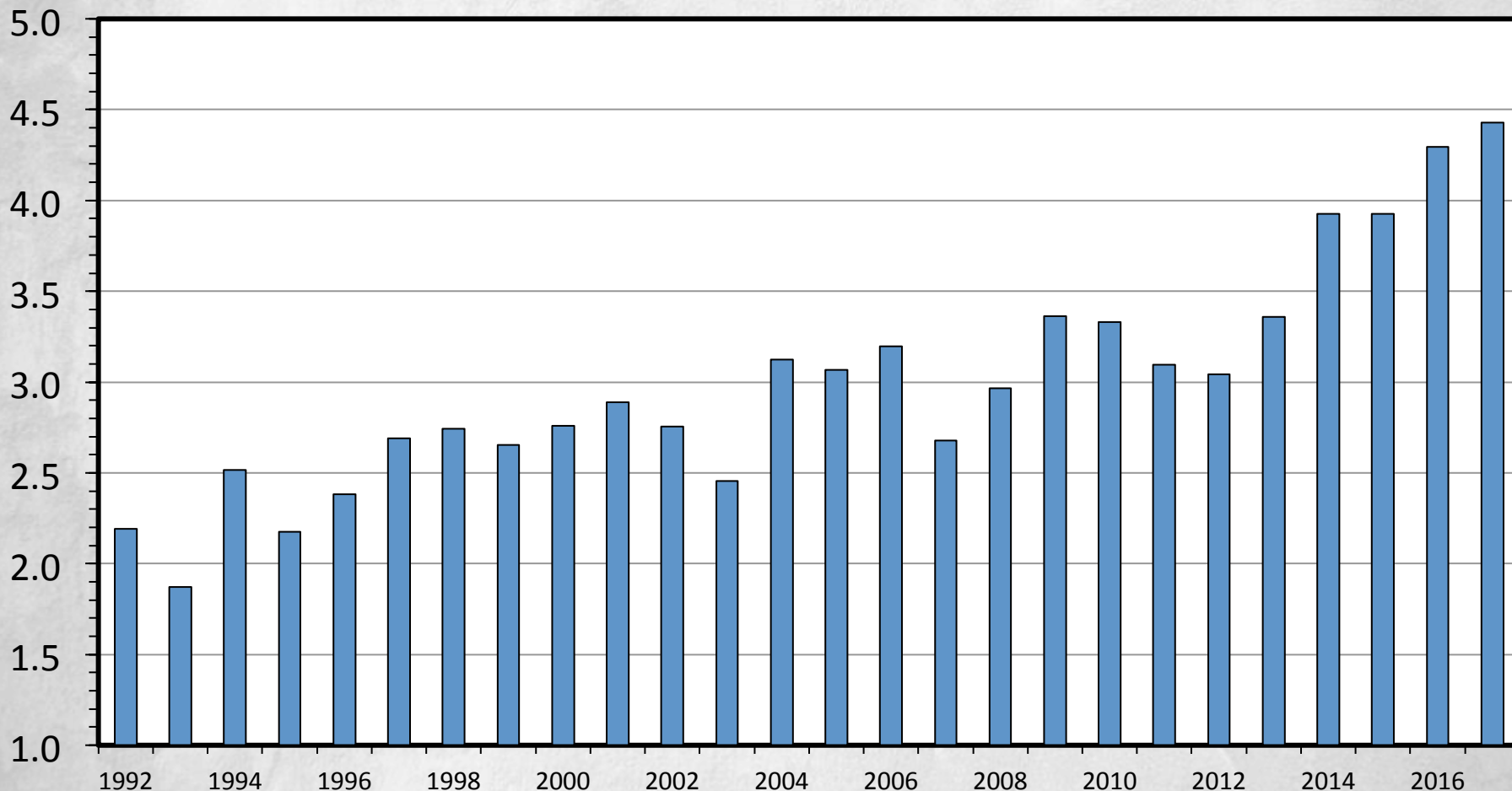
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Source: USDA  
NASS

# US ANNUAL SOYBEAN PRODUCTION

Crop Year

Bil. Bushels



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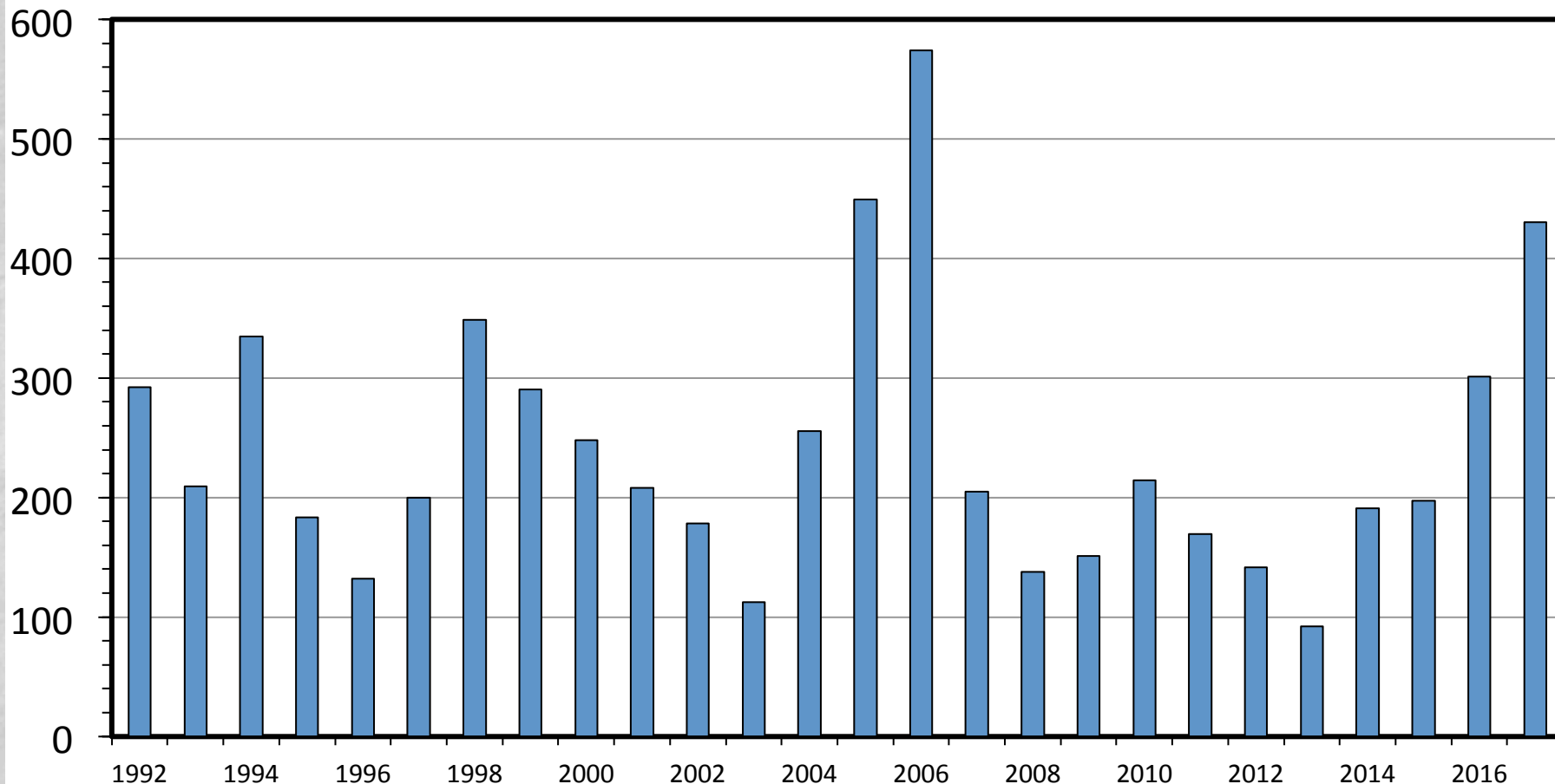
Data Source: USDA-NASS, Forecasts by LMIC  
Livestock Marketing Information Center

G-NP-17  
10/19/17

# US ANNUAL SOYBEAN ENDING STOCKS

Crop Year

Mil. Bushels



Data Source: USDA-NASS, Forecasts by LMIC

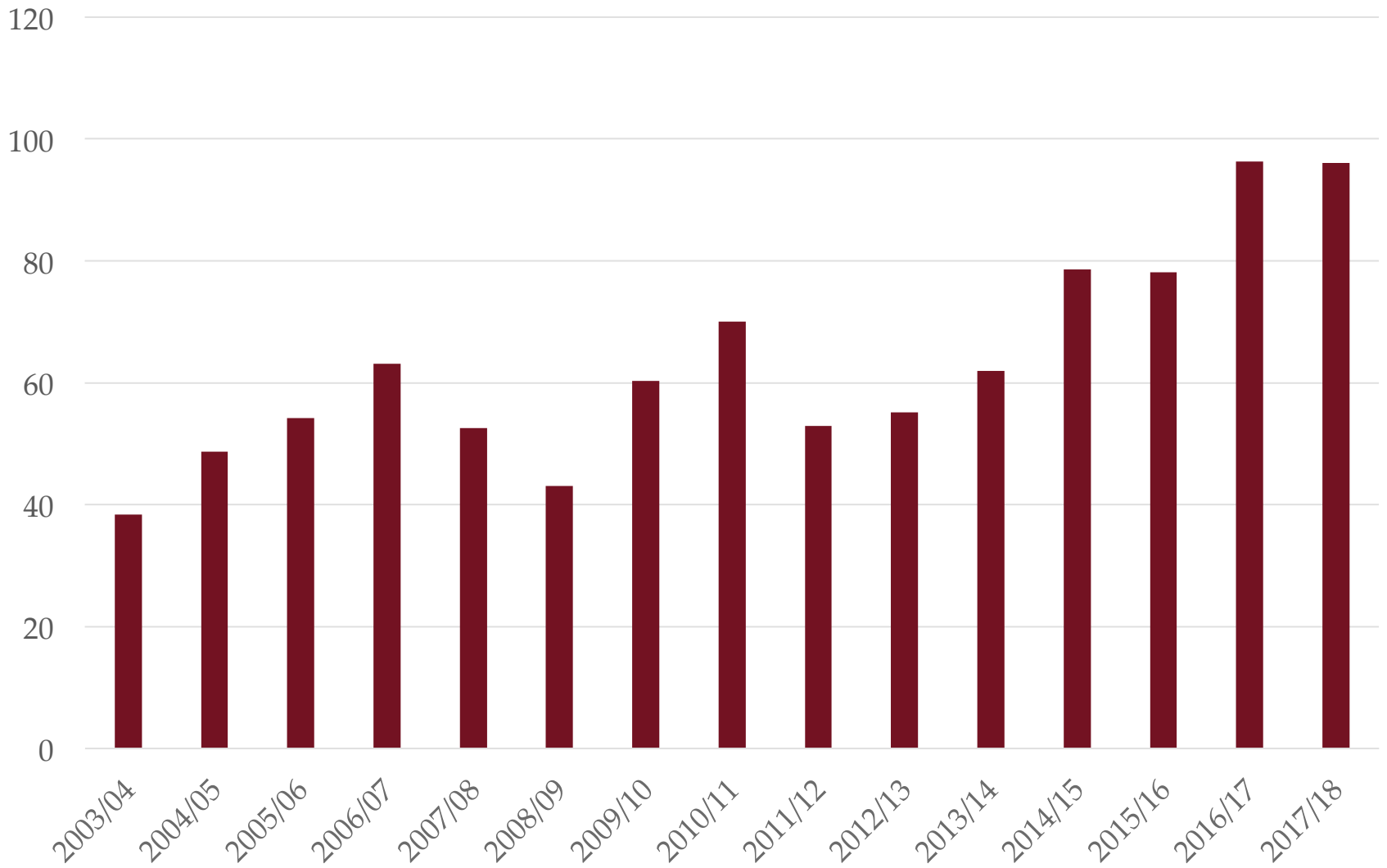
Livestock Marketing Information Center



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G-NP-18  
10/19/17

World Soybean Ending Stocks (Million Metric Tons)



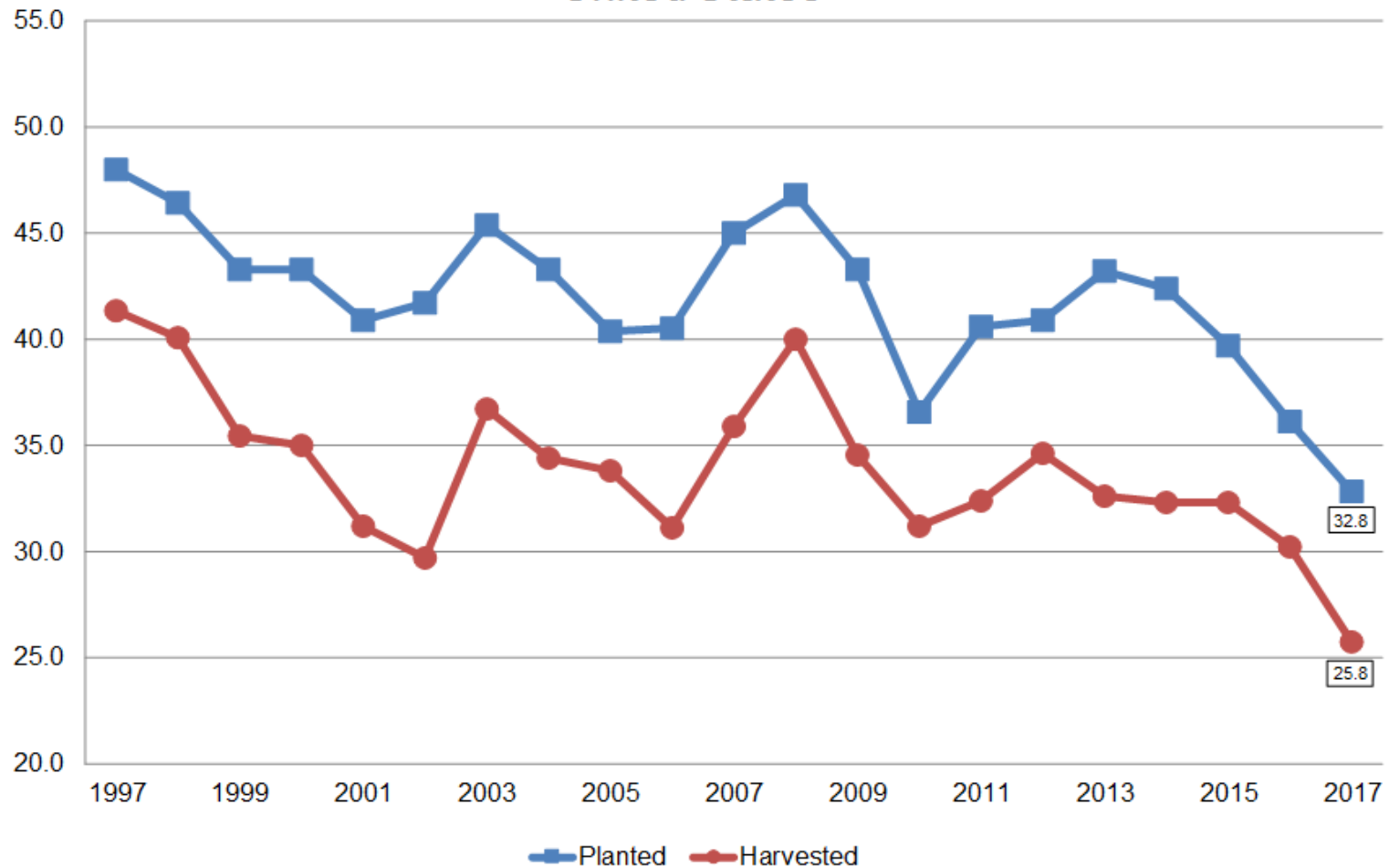
# Winter Wheat



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# Winter Wheat Acres United States

Million Acres

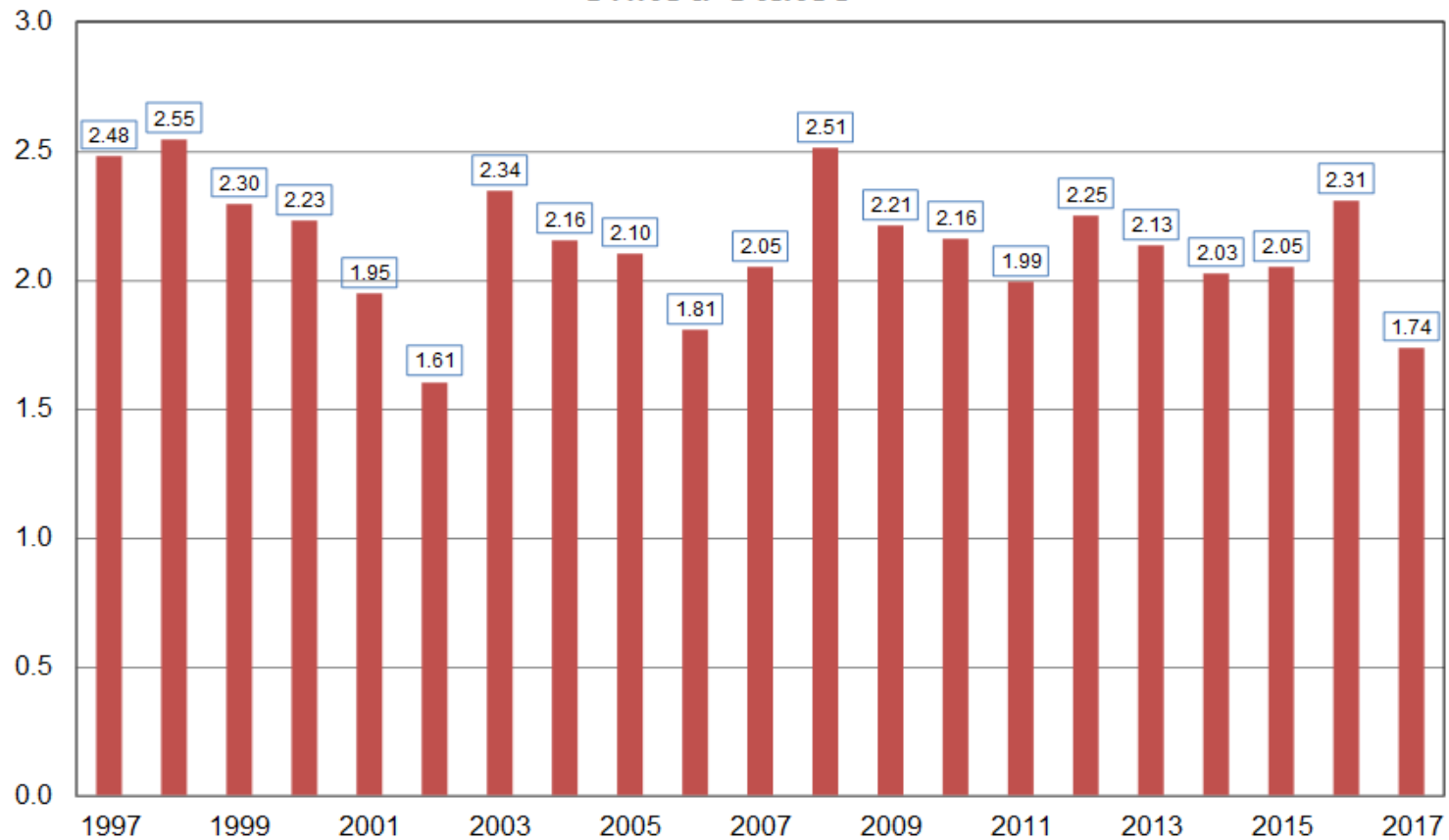


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# All Wheat Production United States

Billion Bushels



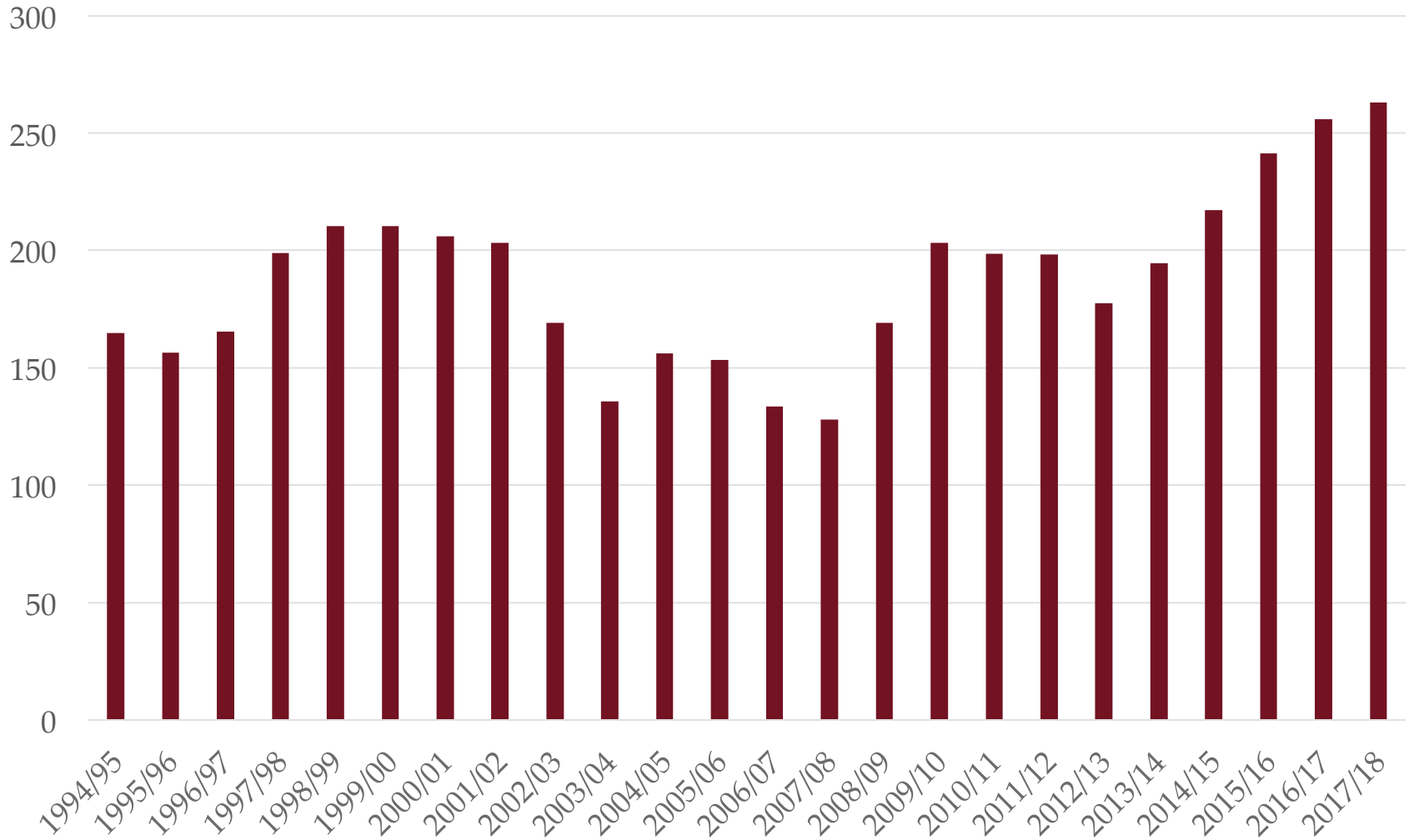
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# Global Ending Stocks (Million Metric Tons)

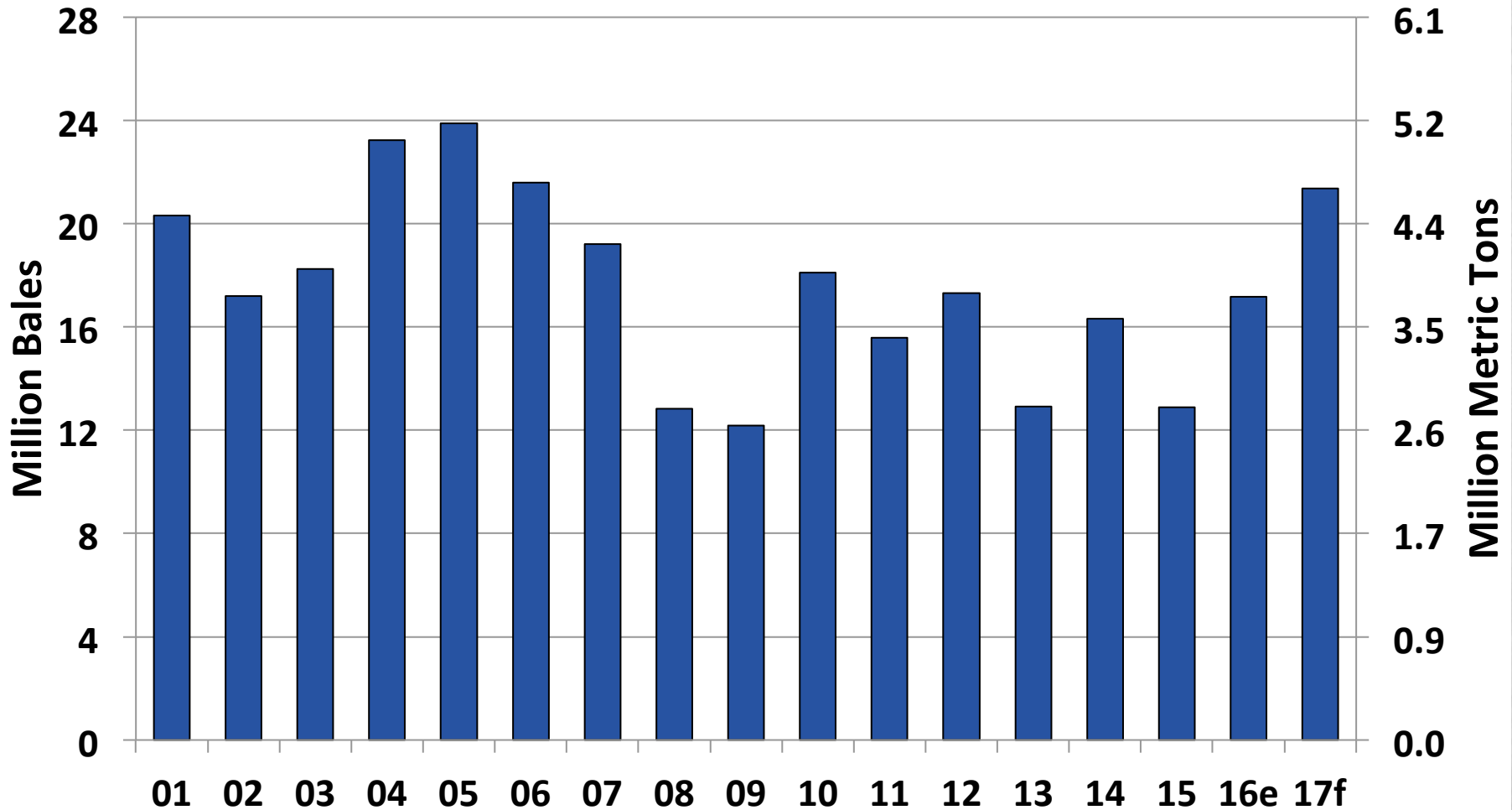


# Cotton

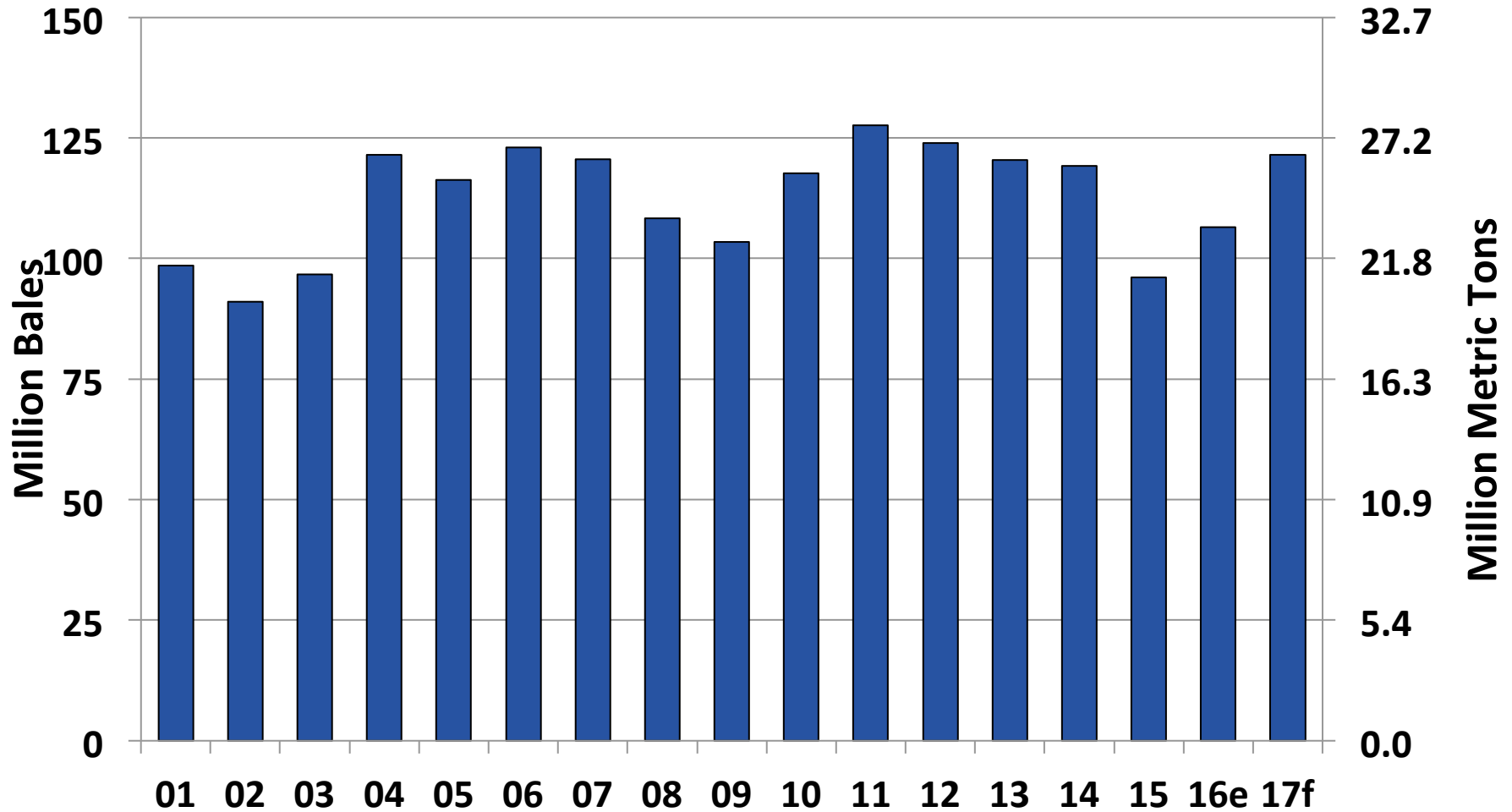


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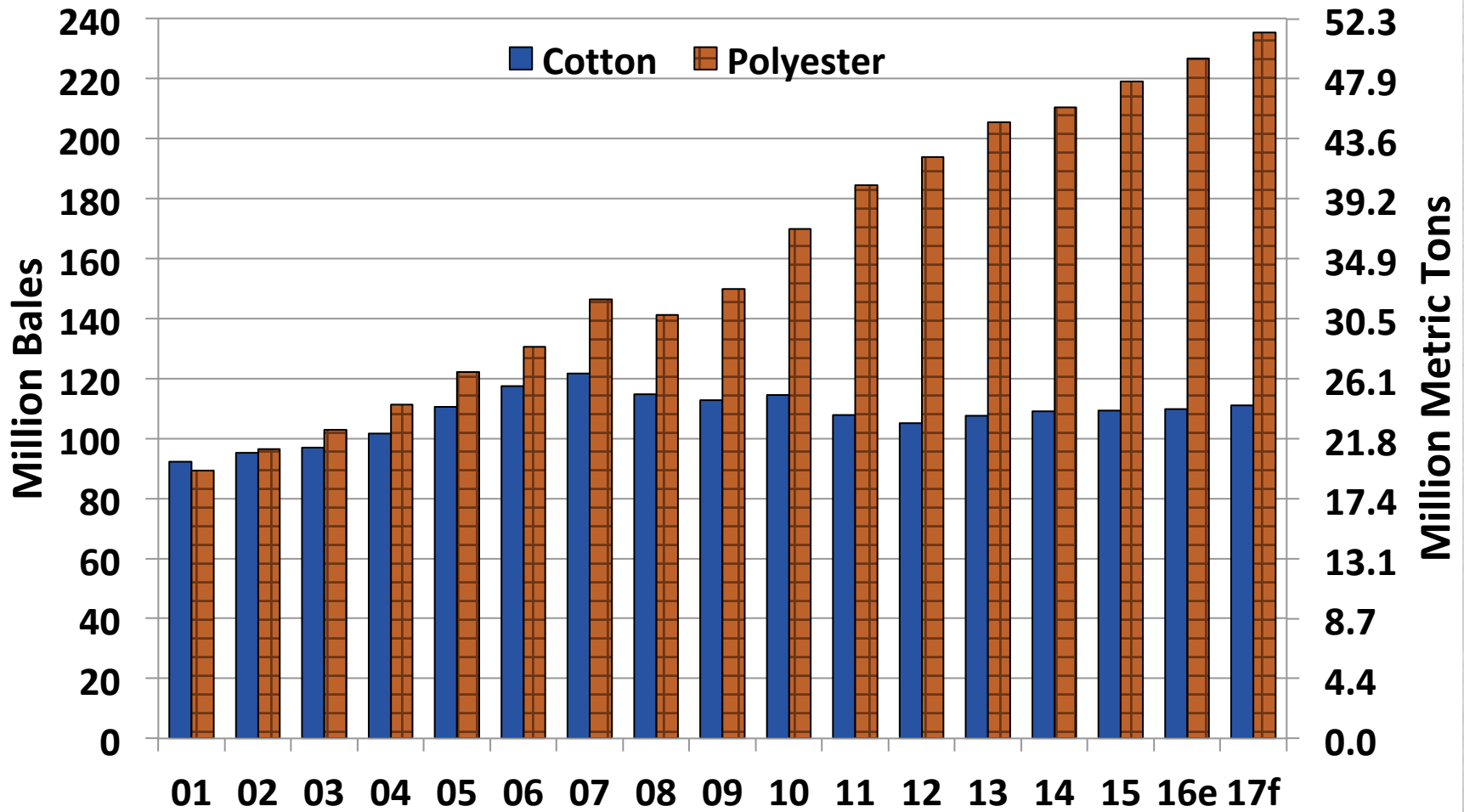
# U.S. Cotton Production



# World Cotton Production



# World Fiber Mill Use



# Rice

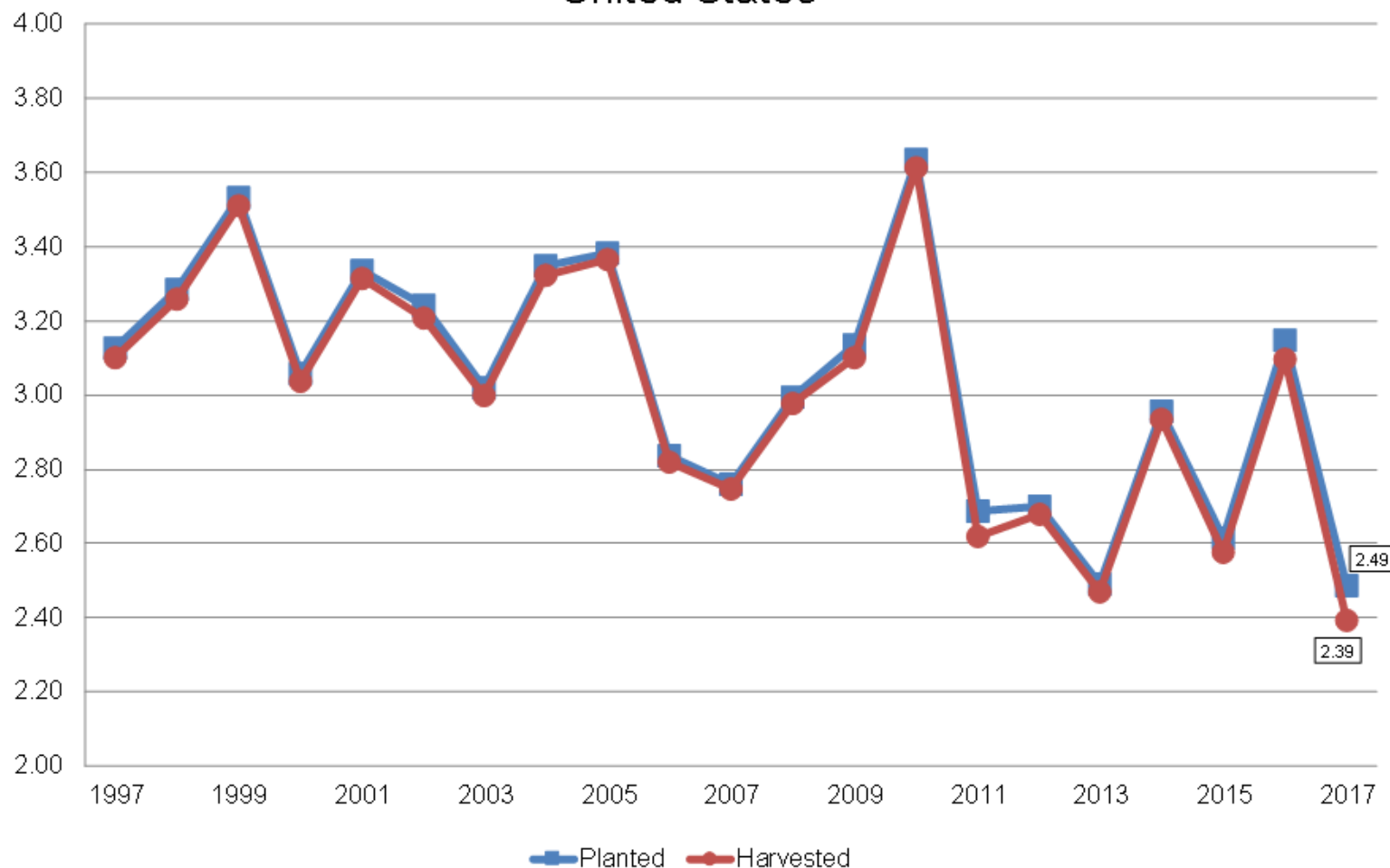


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# Rice Acres United States

Million Acres



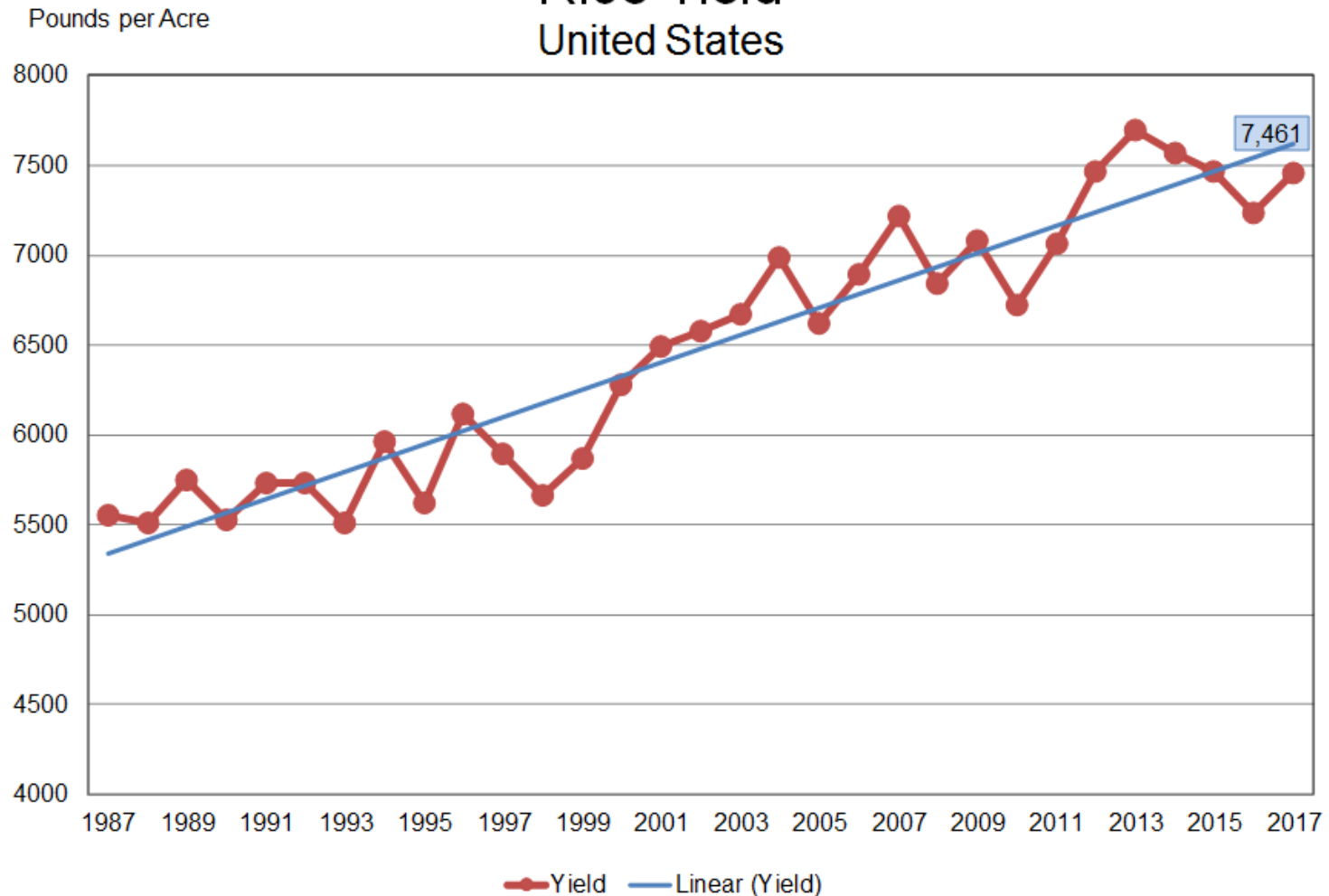
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# Rice Yield United States



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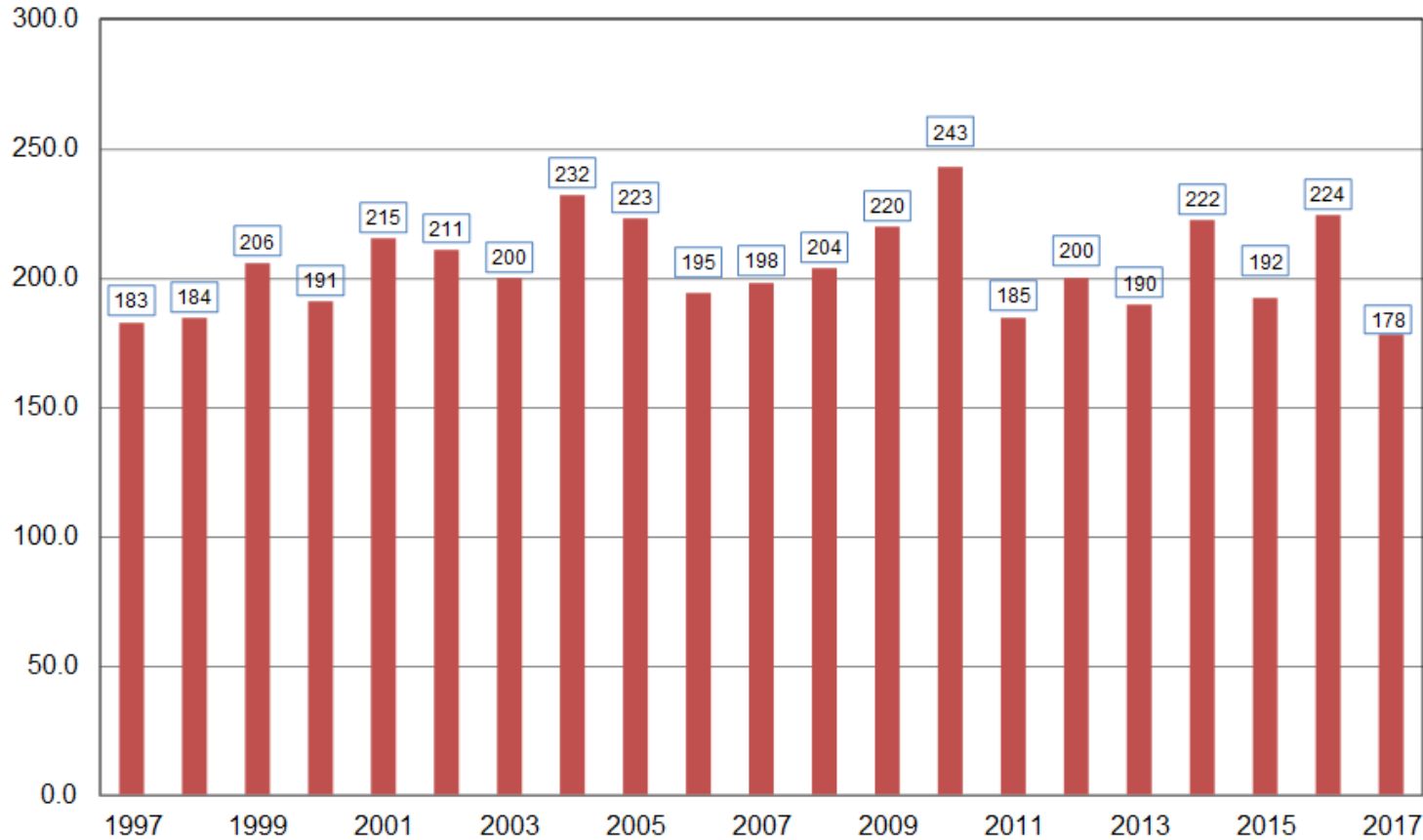
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# Rice Production United States

Million Hundredweight



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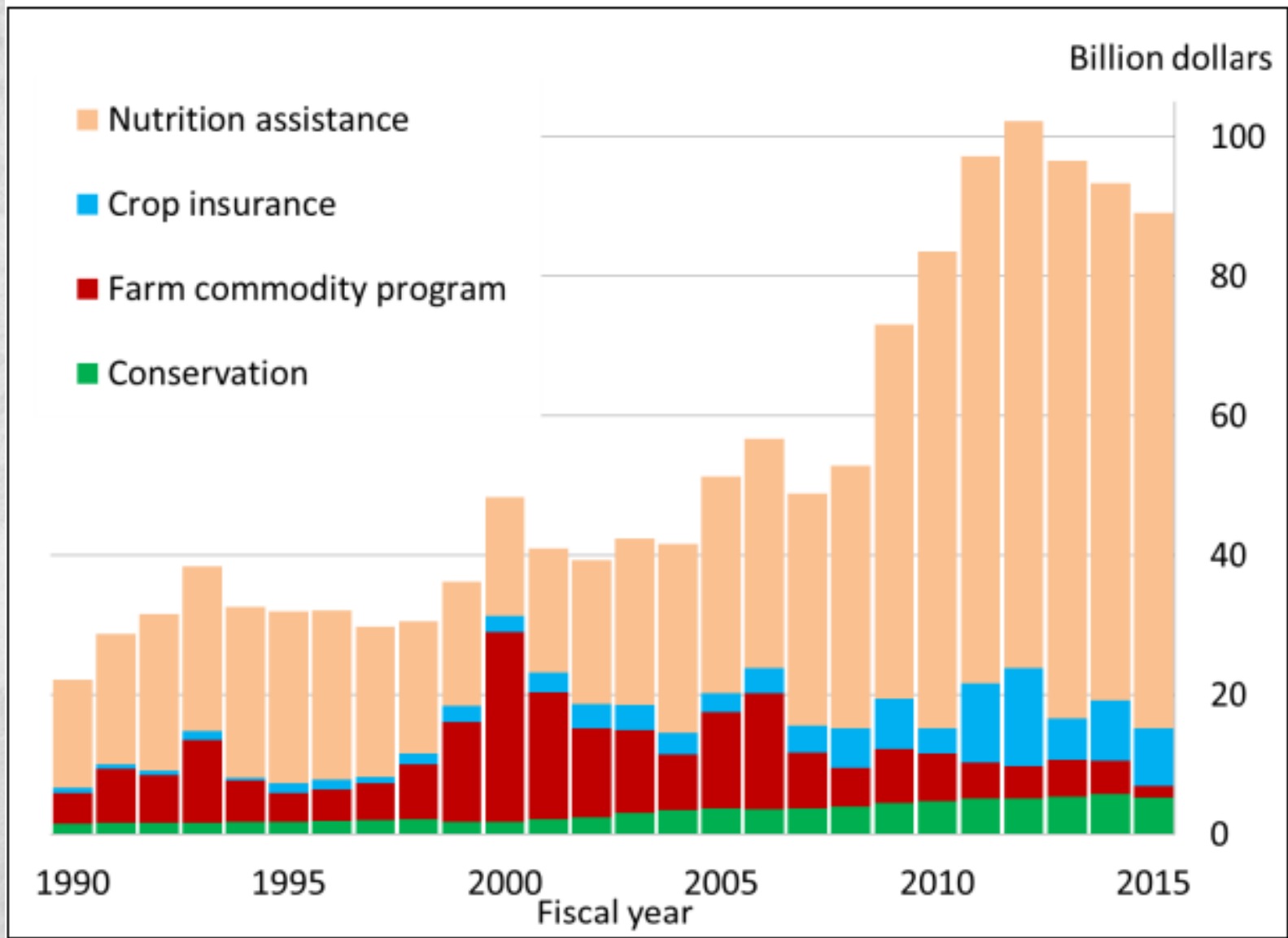


# LETS TALK FARM BILL CONTEXT



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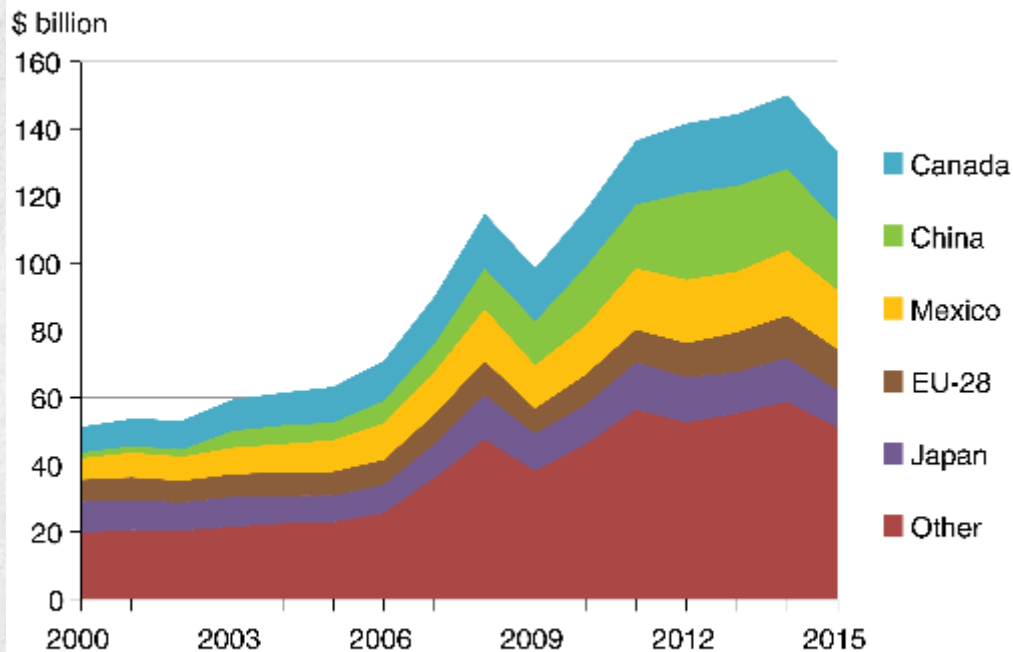
**Figure 3. Farm Bill Spending by Major Mandatory Programs**



# Short-term Policy Outlook

- Tax Bill
- Trade Issues
  - NAFTA
  - Others
  - Current safety net is not designed for NAFTA ending
- RFS
- Approps bill
  - Cotton & dairy funds

Top five markets for U.S. agricultural exports, 2000-15



Source: USDA, Economic Research Service using data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Database.



# Title I – Commodities Programs

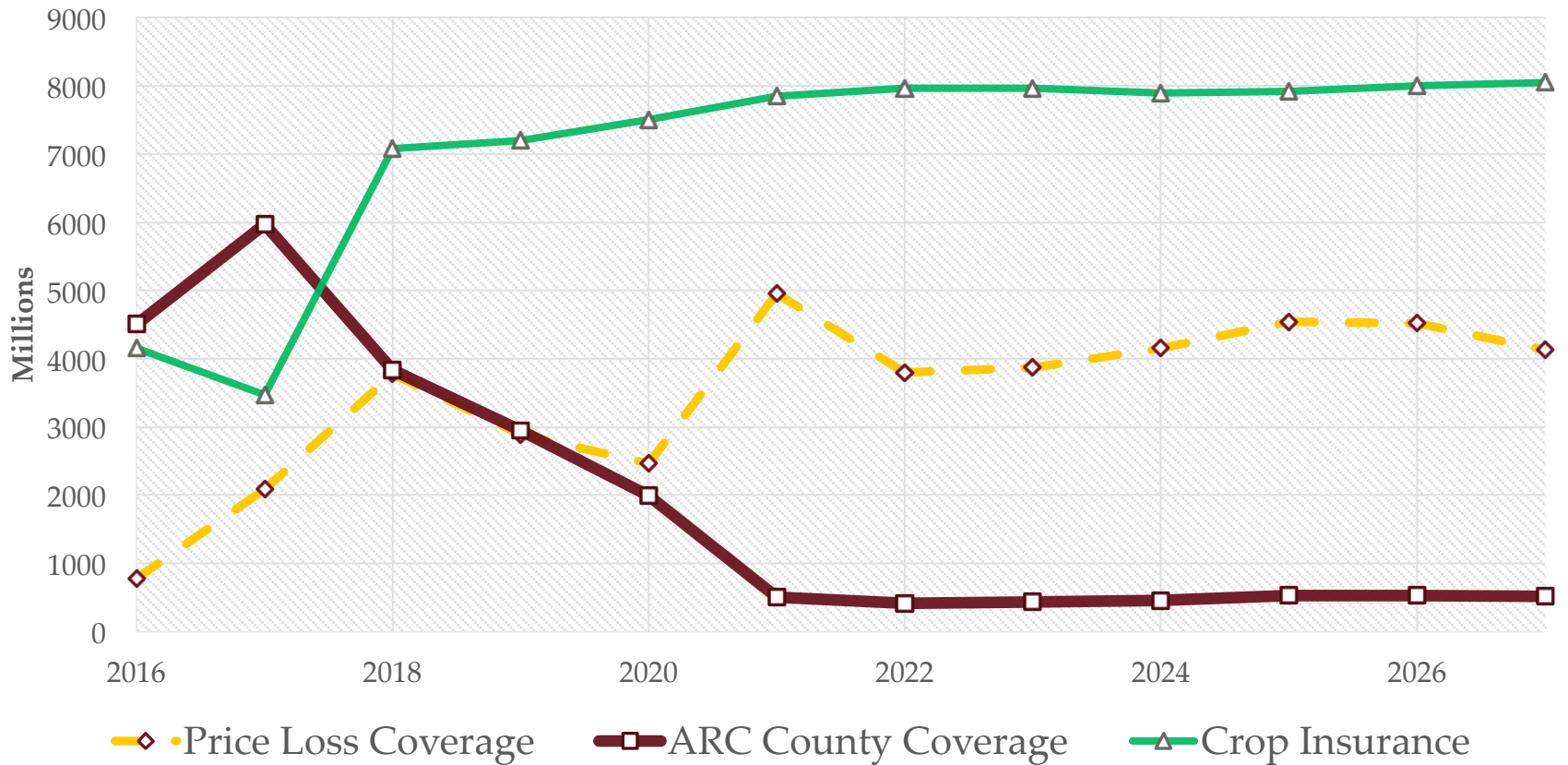
## ARC and PLC:

- Both ARC and PLC pay on **decoupled base acres**
- PLC – national price triggered
- County-level ARC – national price x county yield triggers
  - Average benchmark revenue = 86% x 5 year Olympic average yield (farm or county) **x 5 year Olympic average MYA price**
- Generic Base



# ARC Farm Program Benefits are Projected to Decline

August CBO Baseline

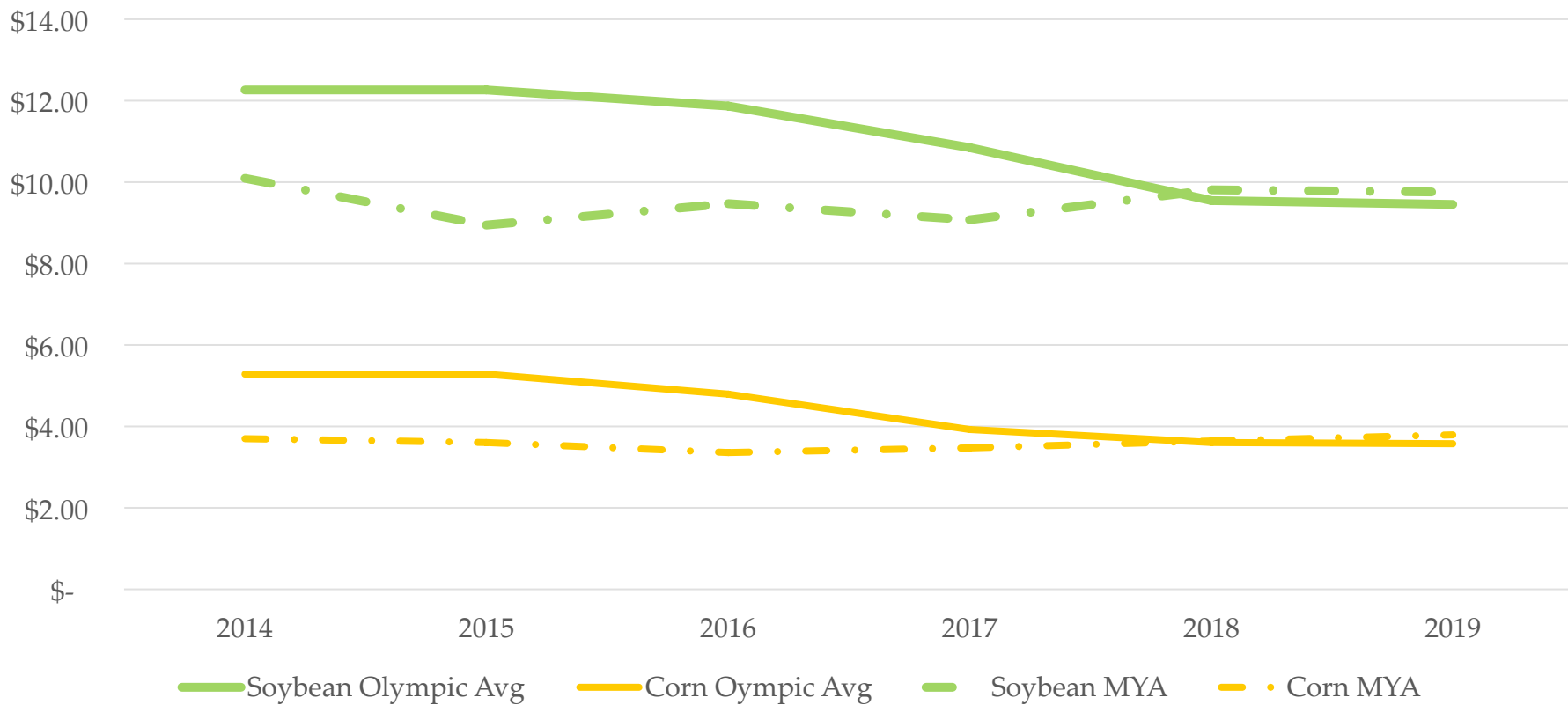


# CBO MYA Estimates

## CBO MYA Assumptions

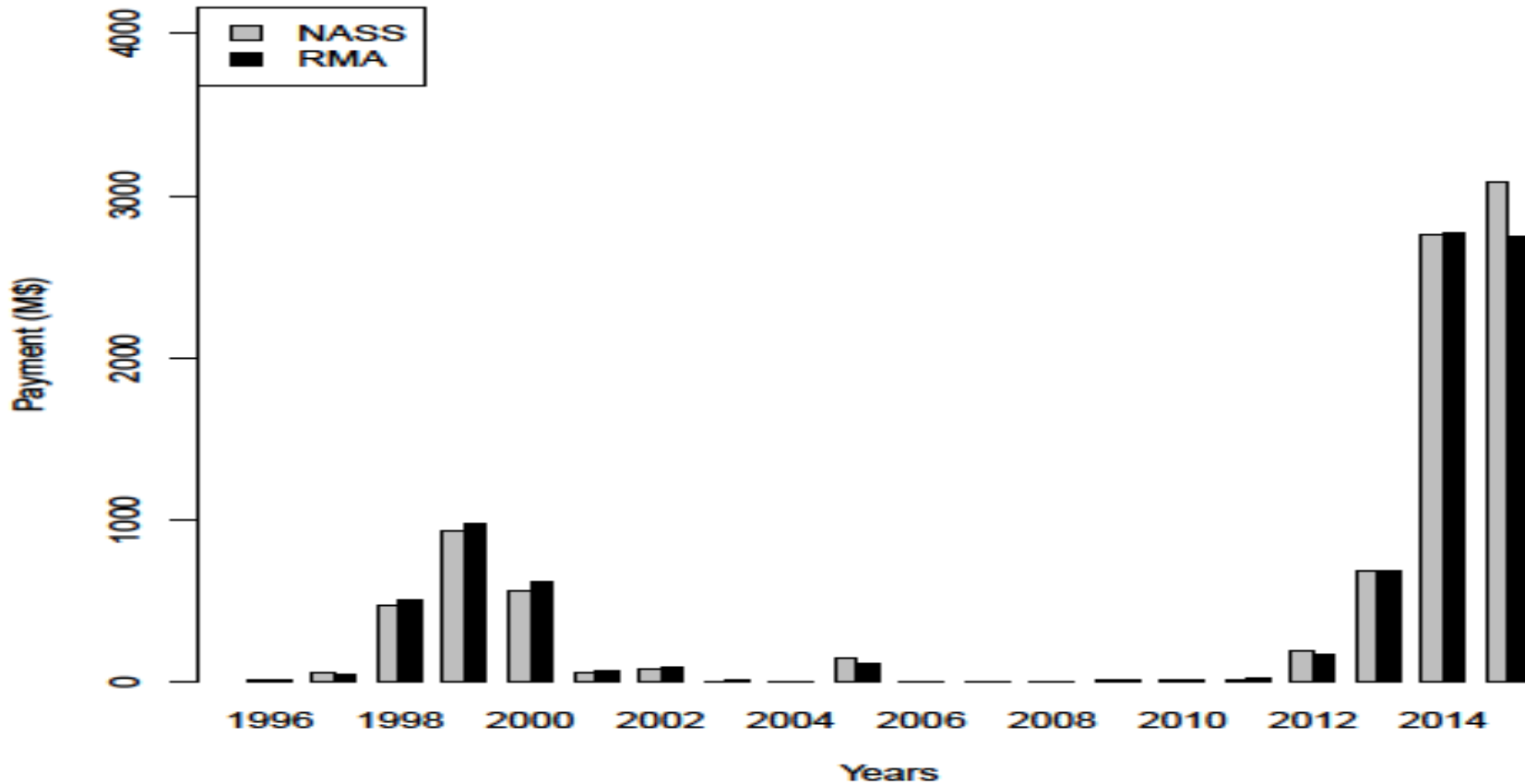


# ARC prices for corn and soybeans will no longer be 'in the money'





## Corn Payments by RMA and NASS



Simulation of ARC Payments over 1996-2016 with RMA Data versus Nass Data



# ARC Take Away

- 2017 corn and soybean ARC payments in October 2018 –expect reduction
- 2018 and beyond - expect ARC payments to decline –expect near zero payment
- Example Delta Corn & Soybean payments if 2016 yields repeated

	Estimated Payment / Base acre		
	2016/17	2017/18	2018/19
Corn	\$64.68	\$11.28	\$0.00
Soybeans	\$9.35	\$1.45	\$0.03



# CROP INSURANCE



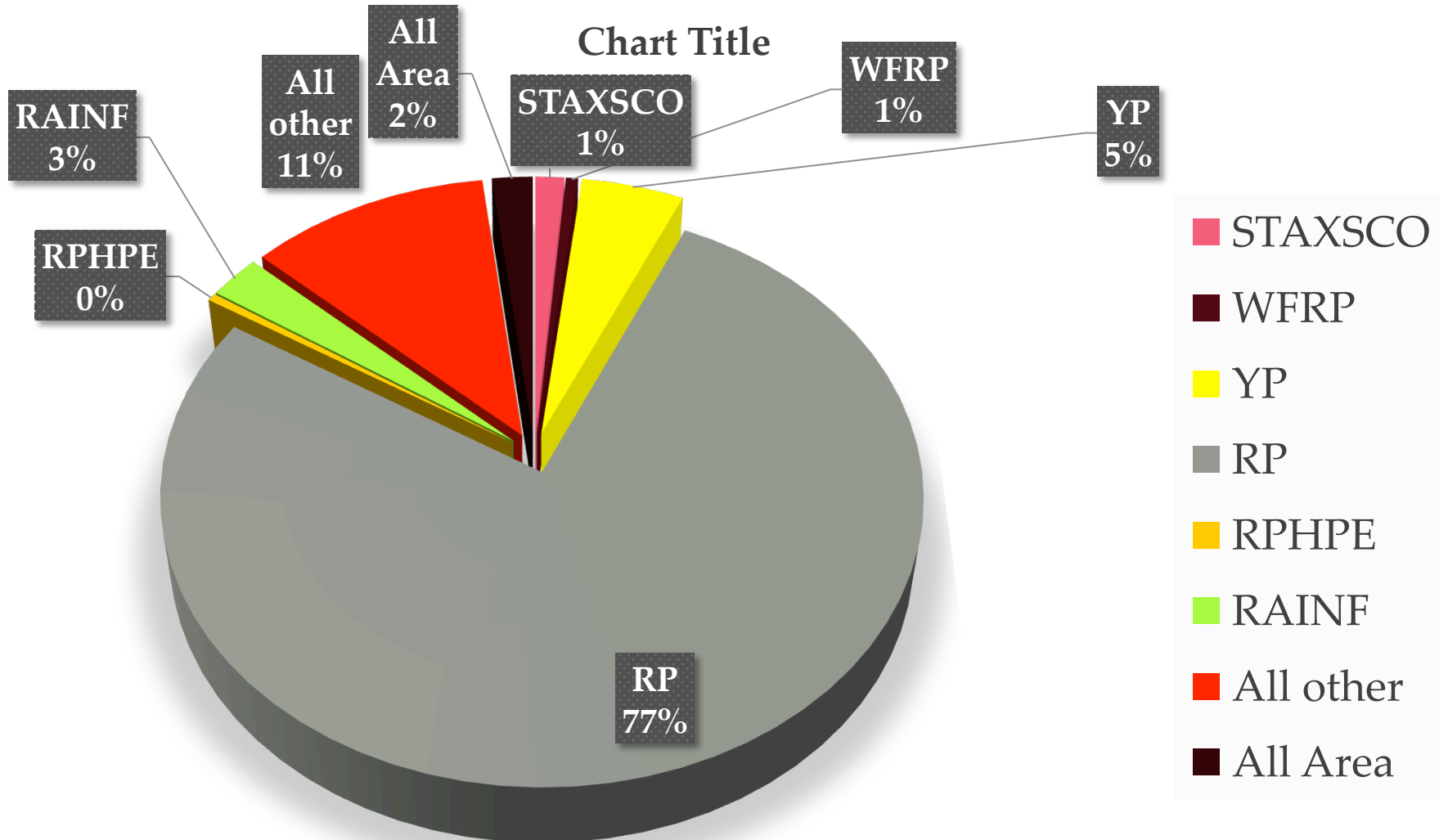
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# What next for crop insurance?

- The subsidy bullseye
  - Capping subsidy at \$40,000
  - Un-subsidizing upside price protection (\$ 1.1-1.3 Billion)
  - Applying AGI limits



# Insurance Plan Premium Shares

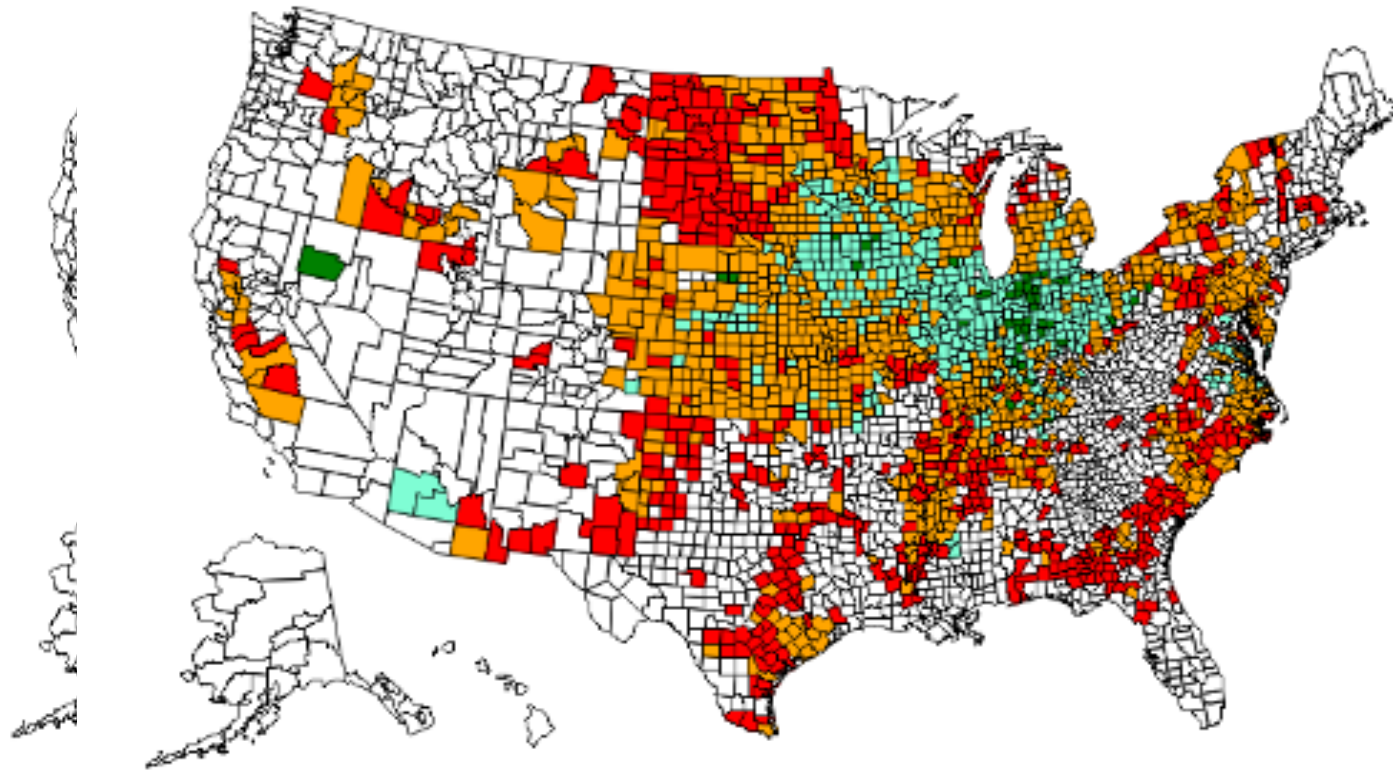


# Crop Insurance Coverage Levels

2017 County Average Coverage Level

2017 County Average Coverage Level

crpcde = 41



Coverage\_level    ■ 50—65%    ■ 65—70%  
                         ■ 70—75%    ■ = > 75%



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# Crop Insurance Subsidy Levels

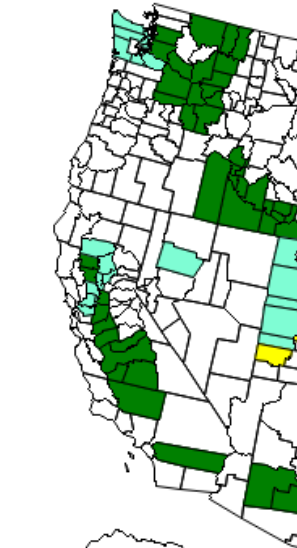
Coverage Level	Basic & Optional Subsidy %	Enterprise Unit Subsidy %	SCO Subsidy	STAX Subsidy %
50%	67%	80%	65%	
55%	64%	80%	65%	
60%	64%	80%	65%	
65%	59%	80%	65%	
70%	59%	80%	65%	80%
75%	55%	77%	65%	80%
80%	48%	68%	65%	80%
85%	38%	53%	65%	80%



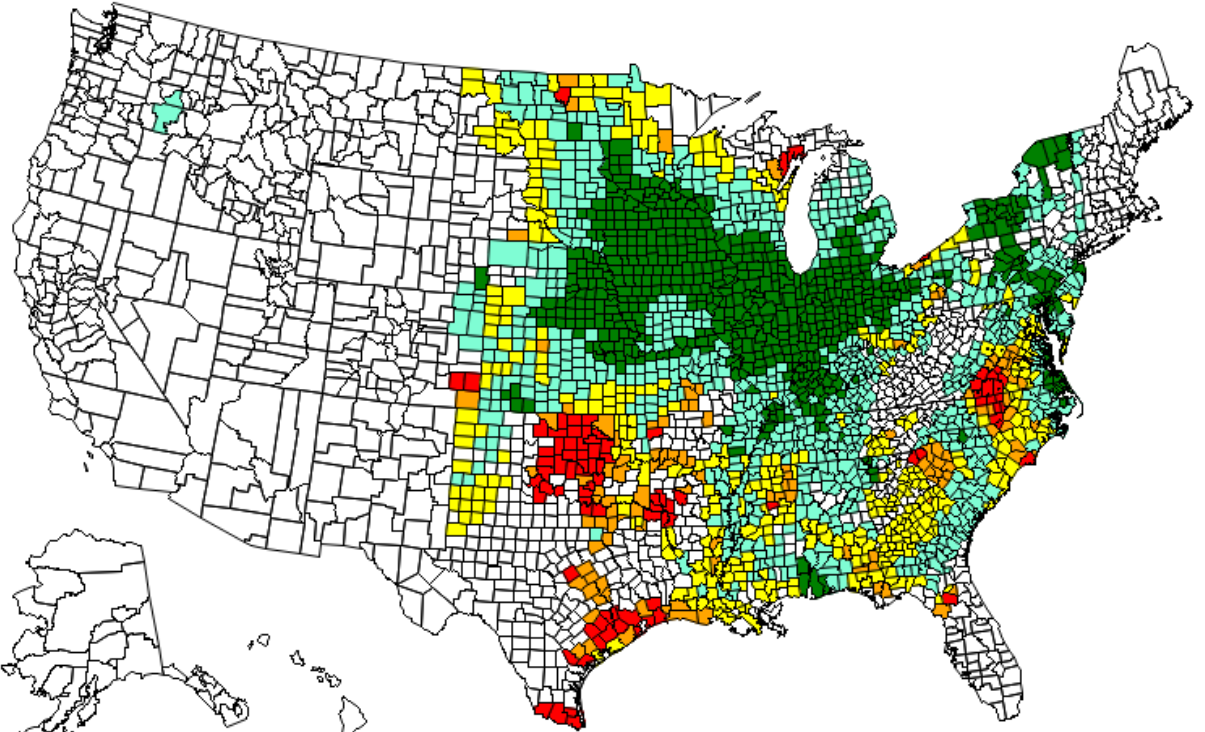
# Differing Risk Levels

2016 Base Premium Rate — Corn

2016 Base Premium Rate — Soybeans





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baserate\_level

 < 7%

 14–21%

 21–28%

 7–14%

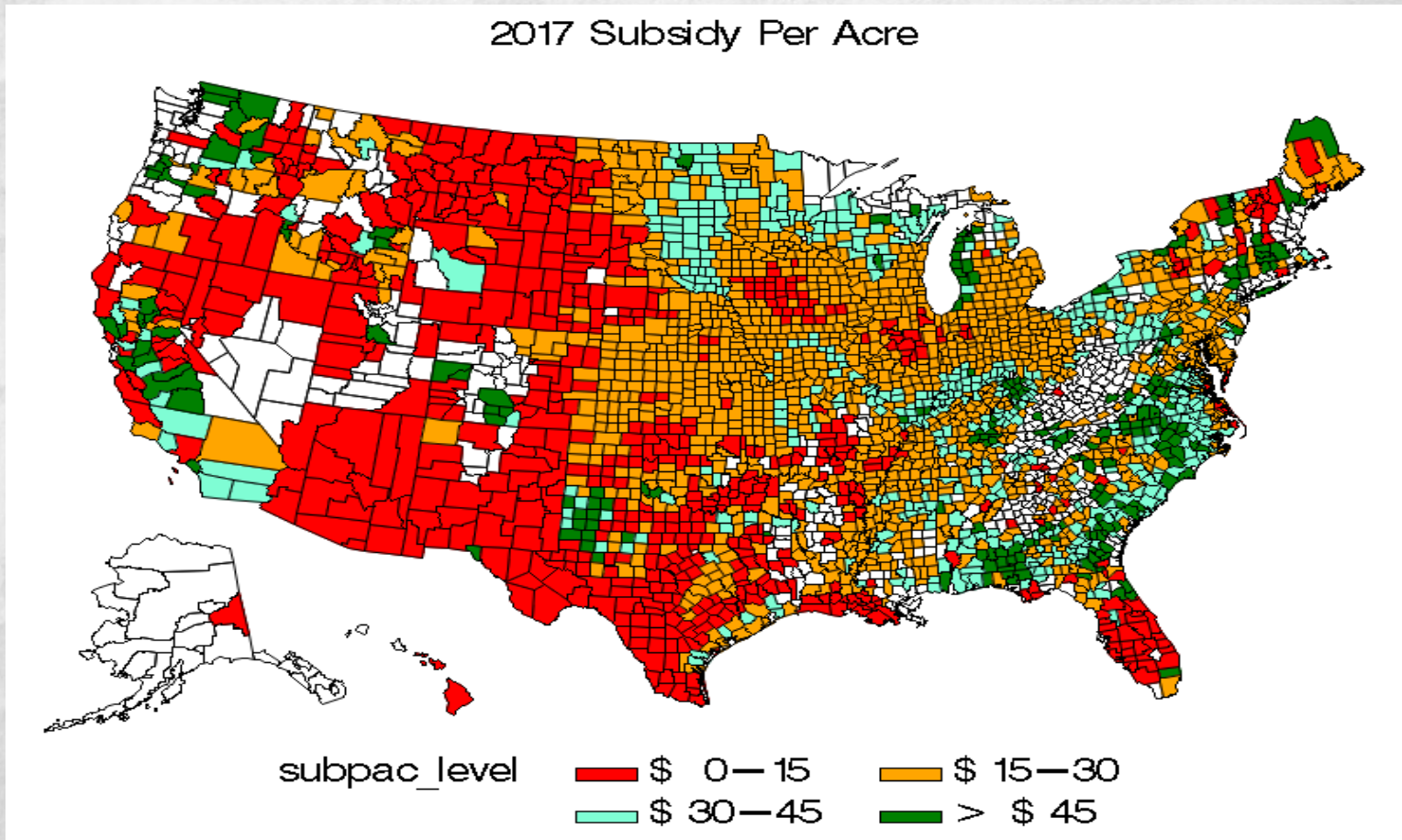
 > 28%



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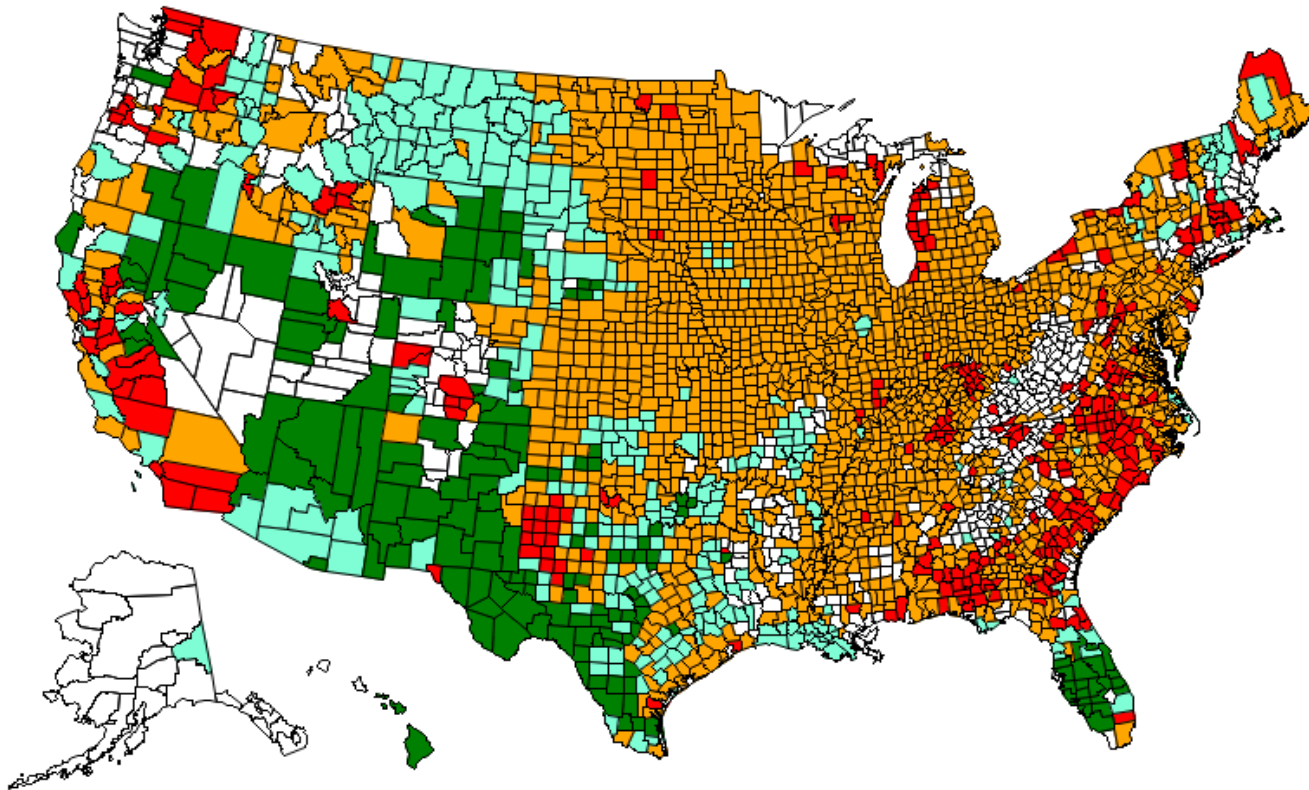


# 2017 All Crop Subsidy per Acre



# Acres to Premium Subsidy Cap

2017 Acres to Hit a \$40,000 Subsidy Cap



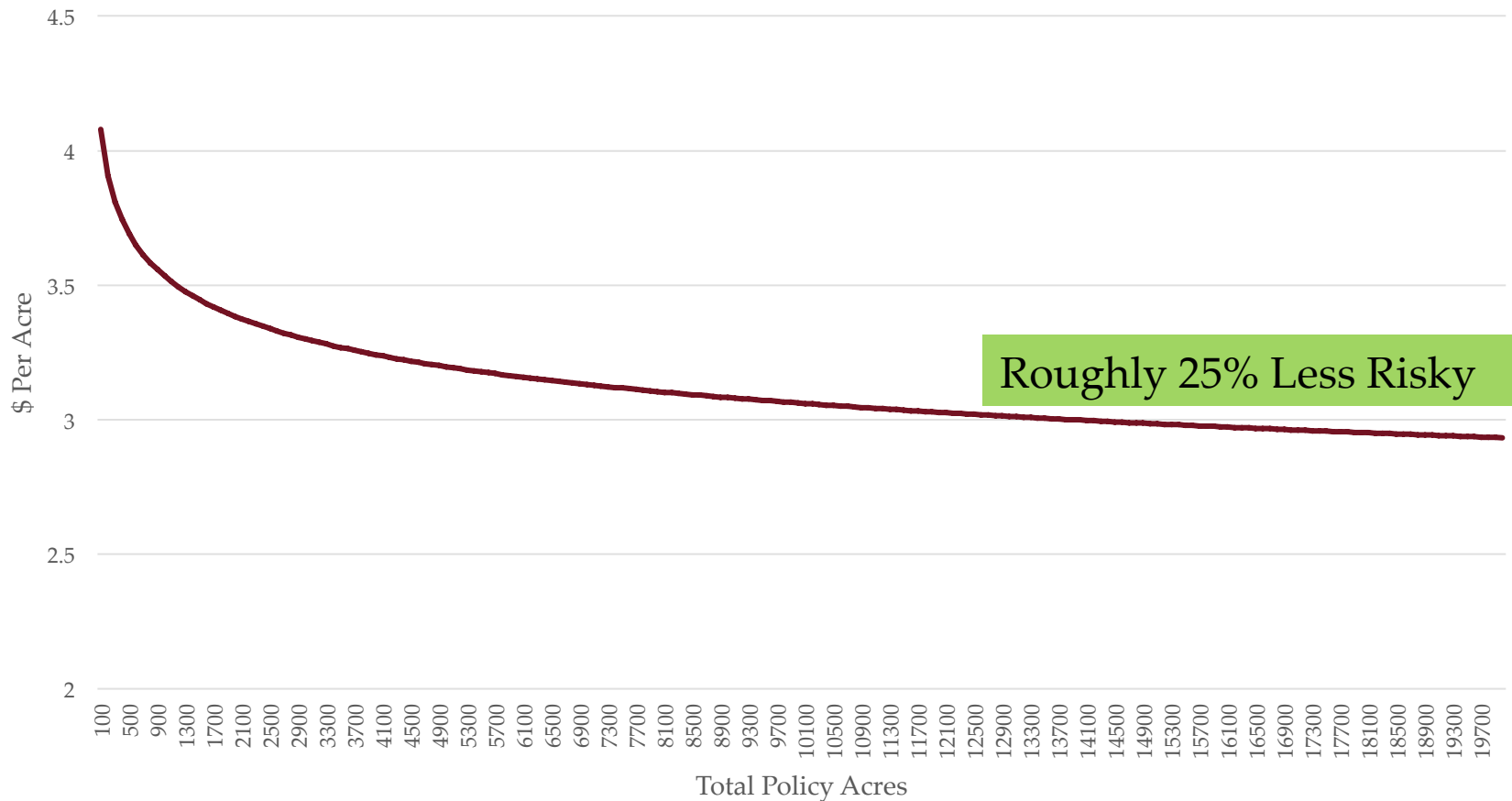
acrestocap\_level    0-1 k    1-3 k  
3-10 k    > 10 k



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# Are Larger Farms Less Risky?

Soybean Per Unit Average Yield Indemnity Per Acre



Roughly 25% Less Risky



# **Five Questions for Your Crop Insurance Agents**

- 1. What about enterprise units?**
- 2. May I qualify for trend adjusted yields?**
- 3. May I qualify for APH yield exclusions?**
- 4. What is the premium for different coverage levels?**
- 5. What about separate coverage levels by practice?**



# Final Thoughts

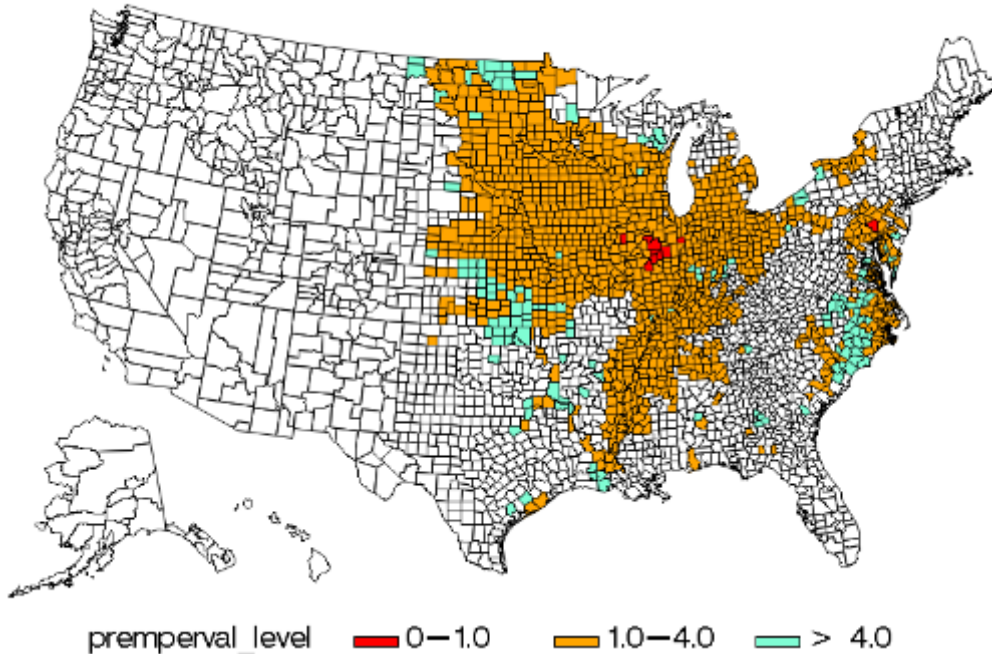


- Consensus outlook is for very flat markets
- But events move markets
  - Weather always matters
  - Trade risk merits watching
  - Interest rate risk
- Farm Bill
  - Committees will try for tweaks of current bill
  - Election year = short window
  - Floor votes?
  - Interaction with welfare reform or budget concerns



# The 4% Rule of Crop Insurance Demand

2016 Soybean Producer Paid Premium as a Percent of Value



2016 Corn Producer Paid Premium as a Percent of Value

