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November Soybean Prices Already in to the CRC \$3 Price Limit¹

We have never hit the CRC \$3 price limit on soybeans. But the conditions are set up again for soybeans this year because the market is already 60-70 cents into the money or \$3 limit on CRC. That means harvest soybean prices will only need to increase about \$2.40 to exceed the CRC liability. It will take a drought in the Corn Belt to increase soybeans above the CRC limit but that is always possible. But would CRC insured growers continue to forward sell soybeans if the price is over the CRC limit?

It is unlikely corn will exceed the CRC limit because most of the \$1.50 limit is still available. Current market corn prices are trading at about the RA/CRC price election used to set the revenue guarantee. However, the corn market could exceed the limit this summer but has no effect on payments. It only matters if the harvest price exceeds the \$1.50 limit and then only if the grower suffers a yield loss. It requires harvest prices to fall below the signup price to trigger payments without a yield loss.

This argument is all based on efficient markets and weather guesses but based on history I would buy the cheaper contract between CRC and RA with the Harvest Price Option (RA-HPO) on corn. Make sure the premiums quoted are for the same unit structure and includes the Harvest Price Option because basic RA is NOT the same coverage as CRC but RA-HPO provides nearly the same coverage. The main difference is that RA-HPO has no liability limit and would be preferred to CRC if premiums are the same. If growers are concerned by the CRC liability limit

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they can buy out of the money calls on corn for a “reasonable” price and turn the CRC into unlimited coverage.

Because of these higher soybean prices that have increased almost a dollar during February, this maybe the year the market exceeds the CRC price limit on soybeans. Buying out of the money calls on soybeans to turn CRC in to unlimited coverage will likely be more expensive than the premium difference between CRC and RA-HPO. That is why I think this year’s HPO is “cheap” on soybeans. So if RA-HPO premiums were less than 5 cents per insured bushel higher than CRC, then it may be worth the extra costs on soybeans but only if growers are going to forward price their soybeans. If growers are not going to forward price more than half their crop then RA-HPO is probably not worth the extra premium over CRC.

The GRIP soybean contract has a higher price election of \$5.99 versus \$5.53 in RA/CRC. The effect is like “rolling up the put” but there are no additional costs. The reason the price election is higher is because GRIP sets the price election based on the last 5 trading days in February. However GRIP settles claims on the October average closing prices for November soybeans. This is the same settlement price used by RA/CRC. Therefore, GRIP already has a built in price election advantage over RA/CRC.

GRIP like RA-HPO also has no price limit but yield loss is measured by county yields. So growers could have a crop failure and receive no GRIP payment.

But if growers don’t have a yield loss then buying no insurance is the right decision.