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### More ACRE Questions and Comments<sup>1</sup>

*Hey Art,*

*I was just wondering your feelings on ACRE at this point? In light of the fact that the eastern Corn Belt planted late and they may lose 1 to 2 million acres of corn, do you see more support for corn prices next year meaning ACRE does not look that attractive? It is my understanding that crop insurance records can be used to establish yields, but do you know what the "plug" yields are? Most producers I talk to at this point are probably not going to enroll.*

*Thanks,  
Ag Lender*

Dear Ag Lender,

The state yield is calculated by taking total state production and dividing it by National Agricultural Statistics Service (NASS) harvested state acres plus Farm Service Agency (FSA) "failed" acres. The number of acres will likely be less than the NASS planted acres. Under this procedure, prevented planted acres are never considered. The result is

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the prevented planted acres will have no effect on the state average yield, but the reduced acres could cause higher prices and eliminate or reduce ACRE payments.

I have also been told that crop insurance records can be used to prove ACRE yields but I have not seen it in written procedure. It is suggested farmers prove yields now before the ACRE signup rather than prove yields after signup. If farmers wait to prove yields later, FSA might reject their records but farmers are locked into ACRE and then would be required to accept a lower “county” yield.

My understanding for ACRE is that FSA has a “county” yield for all program crops in all counties. This number will be substituted when farmers are missing a yield record.

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*Dr. Barnaby,*

*I am a farmer in the Eastern Corn Belt. I listened to your talk at the Top Producer Seminar and had a question concerning the ACRE program for my state. We are currently farming several thousand acres in four counties. We have a fairly diverse acreage with some variation. I wanted to get your recommendation for ACRE in my state.*

*Thank You.*

*Corn Farmer*

Dear Farmer,

The KSU estimates for Marketing Year Average (MYA) 2009/10 prices were just posted, that will settle payments on the 2009 ACRE program after adjustment for 2009 state yields [http://www.agmanager.info/crops/insurance/risk\\_mgt/rm\\_pdf09/AB\\_ACRE60509.pdf](http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf09/AB_ACRE60509.pdf). At this point, this analysis is assuming “average” state yield for 2009 for most states. The KSU definition of state average yield is the current 2009 yield will equal the 5 year Olympic average historical yield. That is reasonable for states that have just planted the crop. The exception is winter wheat, e.g. everyone expects the Oklahoma wheat yield to be below average.

The current KSU estimate for 2009/10 MYA corn price is \$4.51; wheat is \$6.47; sorghum is \$4.25; and soybeans is \$9.04. The KSU price estimates are driven by deferred futures contracts adjusted for a prior 24 month average basis. The KSU price estimates are higher than USDA for wheat and sorghum and on the high end of the range for corn and soybeans. A new USDA estimate will be released this Wednesday so the difference may narrow.

Based on KSU's estimates, soybeans are near the money on ACRE. But corn will need prices to fall by 17.5%, wheat by 7.6% and sorghum by 23.2% to trigger ACRE payments with a 2009 state yield that equals the 5 year Olympic average historical state yield.

The price and yield outlook may look very different by August 1, so there no reason to sign up for ACRE early, even for crops that are very likely to pay, i.e. Oklahoma wheat. Sign up is by farm serial number. Therefore, farmers may sign up only part of their farm serial numbers. The first farm to sign up for ACRE is the one with the lowest direct payment. Because direct payments are based on history, farms may have different FSA program yields or different crop basis. If one farm has more wheat base than corn base it is likely the wheat base will generate a lower direct payment. The cost of ACRE is 20% of the direct payment for the next 4 years, so the smaller the direct payment the smaller the cost of being in the program. While is not expected to trigger on corn, grain sorghum, wheat and soybeans, ACRE will also cost farmers any counter cyclical payments and a 30% reduction in the loan rate. However, these additional costs for ACRE participation are expected to apply to cotton, at least in the near term.

The ACRE payment is based on the crop planted not the base the crop is planted on. Therefore, if farmers are planting a non-program crop (alfalfa for example) on corn base then there is no ACRE payment. Under these conditions, farmers planting non-program crops will want to remain in the full direct payment program because they will receive the full direct payment and there would be no ACRE payment because they have planted a non-program crop.

Farmers will have planting flexibility, therefore farmers who only sign up some of their farm serial numbers could plant the crops that appear most likely to generate a payment on the farms in the ACRE program. The crops planted could change by year so while farmers are signing up for 4 years, farmers can change the crop that is planted. This planting flexibility will be easier for a cash lease. If it is crop share, then some landlords may object to the crop being planted.

Because it is very unlikely farmers will make a final decision to elect ACRE until August, it is suggested farmers obtain signatures from all of their landlords now. It may be difficult to reach a landlord at the last minute because they may be on vacation or otherwise unavailable. Even if it is cash rent and farmers have power of attorney, it still requires the landlords to sign off (This is my understanding but I hear different stories from different counties on the power of attorney requirement).

It is also suggested farmers prove their yields with FSA before August 1. If farmers can prove yields above the FSA county average yields then it will be easier to meet the farm level benchmark necessary for ACRE payment eligibility, and farmers with higher proven yields will receive a higher share of any state ACRE payment. Because of the time requirement, it is strongly suggested farmers complete the paper work now, even if they don't plan to elect ACRE. By August, the market outlook could change and cause a large number of farmers to elect ACRE. If all farmers wait until the end, then FSA will

likely be unable to accommodate all farmers that want to elect ACRE. If on August 14, ACRE is not a good option then don't elect the option. Farmers will have "wasted" time doing the records but they will have a head start on next year when they will have the option to sign up any farm serial numbers not already enrolled in ACRE. Farmers can wait and prove yields after they sign up but what do farmers do if FSA rejects some of their records and they are forced in to using a lower county yield? Farmers will then be locked in to ACRE but with a lower yield that will reduce payments and it will make it more difficult to meet the farm level test.

One final comment, there is some confusion over FSA terms. Farmers who elect ACRE are in ACRE for the next 4 years but farmers must still enroll in ACRE annually. If farmers elect ACRE but don't enroll then they are out on ACRE and their benefits will not default back to the Direct/Counter Cyclical program either.

ART

*Art,*

*Some of the analysts are saying to sign up this year for ACRE because there is a 10% cap on the reduction in the ACRE guarantee so that farmers who sign up next year will have a lower guarantee. Do you agree?*

*Market Analyst*

Dear Analyst,

Beats me! Market could go higher, could trade sideways or could be lower. The thing to remember is the 10% cap applies both ways because there is also a 10% cap.

The 2007/08 MYA price is complete and the 2008/09 MYA price is nearly complete, so I am comfortable with the forecasted 2009 ACRE strike price. By August 14, the 2009 ACRE wheat strike price will be complete and corn/soybeans will be missing two weeks of NASS prices.

In any case based on the KSU strike price estimate, the 2009/10 MYA corn price would have to fall to \$3.36 with an "average" crop before the 10% cap would apply (see line 12 in table 1). However, if the 2009/10 MYA corn price exceeds \$4.12, the 10% cap will apply and farmers who sign up next year will have a higher strike price (see line 13 in table 1). Based on current market conditions one would have to say the cap is more likely than the cup, but farmers will have more market information by August when farmers must make the decision.

The ACRE decision will ultimately be based on price and yield expectations for 2009/10. Farmers will likely make the ACRE decision at the last minute based on their expectations. So for most farmers this is a real "crap shoot" but there are a few clear

decisions. Farmers who are over the \$750,000 Adjusted Gross Income (AGI) limit should sign up for ACRE because their direct payment has already been eliminated. Farmers who are planting non-program crops, e.g. alfalfa on corn base should select the direct payment because ACRE is based on the crop planted and only program crops are eligible for ACRE payments. All crops planted on a farm serial number must be enrolled in ACRE, therefore if the dominate crop (crop with the most expected production) is also the crop expected to trigger an ACRE payment, then those farmers would want to sign up for ACRE. Payment limits also effect the decision. There is a maximum payment cap equal to 25% of the ACRE coverage that only requires about 700-800 acres of corn to hit the cap, but that would require a “very low price”. However on cotton, if the 25% cap were to hit then the low price would trigger marketing loan gains that have no payment limit. Over the limit cotton producers would not want to trade ACRE with a payment limit for marketing loan gains that have no limit. This does not apply to corn because the loan rate is so low relative to current market prices, as a result most analysts don’t expect corn farmers will need to forego counter cyclical payments or marketing loan gains because there is no expectation that either will trigger.

Corn, grain sorghum, wheat and soybean producers should prove their yields now, and keep all of their options open prior to the August 14 sign up date. ACRE may be attractive for those farmers, but it is very unlikely that cotton producers will elect ACRE.

KSU will continue to update the MYA prices in the table below at [http://www.agmanager.info/crops/insurance/risk\\_mgt/rm\\_pdf09/AB\\_ACRE60509.pdf](http://www.agmanager.info/crops/insurance/risk_mgt/rm_pdf09/AB_ACRE60509.pdf).

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Table 1. Estimated Weighted National Average Price and Projected % ACRE Price loss (06/05/09)

Crop	Wheat <sup>1</sup>		Grain		Soybeans <sup>1</sup>	
	Month		Month			
	Jun	<b>7.62</b>	Sep	<b>5.02</b>	<b>4.60</b>	<b>10.70</b>
	Jul	<b>7.16</b>	Oct	<b>4.37</b>	<b>3.96</b>	<b>9.94</b>
	Aug	<b>7.64</b>	Nov	<b>4.26</b>	<b>3.68</b>	<b>9.38</b>
	Sep	<b>7.43</b>	Dec	<b>4.05</b>	<b>2.87</b>	<b>8.97</b>
	Oct	<b>6.67</b>	Jan	<b>4.36</b>	<b>3.27</b>	<b>9.97</b>
	Nov	<b>6.28</b>	Feb	<b>3.87</b>	<b>2.83</b>	<b>9.55</b>
	Dec	<b>5.91</b>	Mar	<b>3.86</b>	<b>3.10</b>	<b>9.12</b>
	Jan	<b>5.90</b>	Apr	<b>3.85</b>	<b>3.12</b>	<b>9.79</b>
	Feb	<b>5.79</b>	May	<b>4.08</b>	<b>3.44</b>	<b>10.80</b>
	Mar	<b>5.70</b>	Jun			
	Apr	<b>5.74</b>	Jul			
	May	<b>6.02</b>	Aug			
<b>1</b>	<b>USDA Est. 2008/09 NASS Price</b>	<b>6.85</b>		<b>4.20</b>	<b>3.30</b>	<b>9.85</b>
<b>2</b>	<b>% of 08-09 NASS Price Settled<sup>3</sup></b>	100%		81%	82%	86%
<b>4</b>	<b>07-08 NASS Published Price<sup>1</sup></b>	<b>6.48</b>		<b>4.20</b>	<b>4.08</b>	<b>10.10</b>
<b>3</b>	<b>KSU Est. 2008/09 NASS Price<sup>2</sup></b>	<b>\$6.78</b>		<b>\$4.19</b>	<b>\$3.44</b>	<b>\$9.93</b>
<b>ACRE</b>						
<b>5</b>	<b>2009 ACRE Strike Price, Average of 2007/08 &amp; 2008/09 MYA Price</b>	<b>6.63</b>		<b>4.19</b>	<b>3.76</b>	<b>10.01</b>
<b>6</b>	<b>Assume an "Average" State Yield, 2009 ACRE Payment Price X 90%<sup>4</sup></b>	<b>5.97</b>		<b>3.77</b>	<b>3.38</b>	<b>9.01</b>
<b>7</b>	<b>Assuming an "Average" Yield, Maximum ACRE Price to Exceed the 25% Cap on Payments<sup>5</sup></b>	<b>4.48</b>		<b>2.83</b>	<b>2.54</b>	<b>6.76</b>
<b>8</b>	<b>USDA Est. 2009/10 NASS Price</b>	<b>4.70-5.70</b>		<b>3.70-4.50</b>	<b>3.15-3.85</b>	<b>8.45-10.45</b>
<b>9</b>	<b>KSU Forecast of the 2009/10 New Crop MYA Price<sup>6</sup></b>	<b>6.47</b>		<b>4.51</b>	<b>4.25</b>	<b>9.04</b>
<b>10</b>	<b>\$ ACRE in (out) of the Money</b>	<b>-\$0.50</b>		<b>-\$0.74</b>	<b>-\$0.87</b>	<b>-\$0.03</b>
<b>11</b>	<b>% ACRE in (out) of the Money Next Year's Cup &amp; Cap</b>	<b>(7.6%)</b>		<b>(17.5%)</b>	<b>(23.2%)</b>	<b>(0.3%)</b>
<b>12</b>	<b>Min 2009/10 Price to trigger 10% Cup</b>	<b>5.15</b>		<b>3.36</b>	<b>3.33</b>	<b>8.10</b>
<b>13</b>	<b>Max 2009/10 Price to trigger 10% Cap</b>	<b>6.35</b>		<b>4.12</b>	<b>4.00</b>	<b>9.90</b>

<sup>1</sup>NASS Published Prices.

<sup>2</sup>The NASS 2008/09 marketing year is a weighted Marketing Year Average (MYA) price. The 2008/09 MYA price is averaged with the 2007/08 MYA price to set the strike price for the 2009 ACRE program. Also the 2008/09 MYA price is used to settle claims on the 2008 SURE programs.

<sup>3</sup>The estimated 2008/09 MYA price is about 100% complete for wheat because the wheat marketing year starts June 1 through May 31 while the marketing year for the other crops is September 1 through August 31 therefore the 2008/09 MYA price for corn, grain sorghum and soybeans is about 80% complete. However, the wheat weights for the year will not be released for about another 60 days, therefore MYA price is not complete.

<sup>4</sup>The 2009/10 MYA price would need to fall below the strike price to trigger assuming the state yield is equal to the state Olympic 5 year average yield.

<sup>5</sup>The maximum 2009/10 MYA price necessary to hit the 25% of coverage payment limit. Once the ACRE 25% of coverage payment limit is hit, then prices will need to fall below 70% times the loan rate (\$1.365 for corn) to trigger additional payments because there is no counter cyclical payment. The maximum price will be lower for farmers over the \$73,000 payment limit.

<sup>6</sup>It is assumed the market traded nearby futures prices adjusted for percentage basis for MYA cash price over the past 24 months, is the best current estimate of the MYA price to settle ACRE claims.