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Projected Prices for Crop Insurance Based on First Two-weeks of February

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During February, projected prices used in crop insurance guarantees applicable to Midwestern states are set for corn and soybeans. These projected prices are the averages of daily settlement prices of Chicago Mercantile Exchange (CME) contracts during February, with the December contract used for corn and the November contract for soybeans. Through the first two weeks of February, settlement prices have averaged \$5.74 per bushel for corn and \$12.35 per bushel for soybeans.

If the projected price for corn turns out to be \$5.74, it would be the second highest projected price since 1972. The \$5.74 price would only be exceeded by last year's price of \$6.01 per bushel. The \$12.35 price for soybeans would be the third highest projected price since 1972. The only two years to exceed \$12.35 are 2008 with a \$13.36 price and 2011 with a \$13.39 price. A \$5.74 projected price for corn and \$12.35 price for soybeans would allow relatively high guarantee levels to be set for 2012. These high guarantee levels allow farmers to significantly reduce downside revenue risk (see [here](#))

Guarantees in 2012 Compared to 2011 Guarantees

In 2011, the projected price for corn was \$6.01. An Actual Production History (APH) yield of 170 bushels and an 80% coverage level would result in a minimum guarantee of \$817 per acre:

$$\$817 = 170 \text{ bushel APH yield} \times \$6.01 \text{ projected price} \times .80 \text{ coverage level.}$$

In 2012, most farmers will take the Trend Adjusted (TA) APH yield endorsement. For 10 years of continuous yield records, this endorsement will add about 10 bushels to the yield. Hence, a TA APH yield is 180 bushels per acre is roughly comparable to a 170 bushel APH. Given the TA endorsement and a 180 bushel TA APH yield, the minimum guarantee level is \$826 per acre for a \$5.74 projected price:

$$\$826 = \$180 \text{ bushel TA APH yield} \times \$5.74 \text{ estimated projected price} \times .80 \text{ coverage level.}$$

The \$826 estimated guarantee for 2012 is slightly higher than the \$817 guarantee for 2011. This suggests in many situations corn guarantees will be slightly higher than last year's guarantees given the same coverage level choice

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In 2011, the soybean projected price was \$13.49. An APH yield of 50 bushels and an 80% coverage level result in a minimum guarantee for RP products of \$540:

$$\$540 = 50 \text{ bushel APH yield} \times \$13.49 \text{ projected price} \times .80 \text{ coverage level}$$

In 2012, most farmers will purchase the TA APH endorsement, resulting in a TA APH yield over 2 bushels higher than the APH yield if 10 years of consecutive yields are used in calculating the APH yield. A 52 bushel TA APH yield and a \$12.35 price results in a minimum guarantee of \$513

$$\$513 = 52 \text{ bushel APH yield} \times \$12.35 \text{ projected price} \times .80 \text{ coverage level.}$$

The \$513 estimated 2012 guarantee is slightly lower than the \$540 guarantee in 2011. In many situations, soybean guarantees will be slightly lower than last year's guarantees given the same coverage level.

Summary

Last year, guarantees available from RP crop insurance were at historically high levels. Guarantees in 2012 will be at similar levels given that projected prices are around \$5.74 for corn and \$12.35 for soybeans. Even though 2012 projected prices likely will be lower than 2011 prices, the TA APH endorsement increases guarantees, causing guarantees to be at similar levels to last year.

Note that \$5.74 for corn and \$12.35 for soybeans are averages of the first two weeks. Prices could vary from these averages. Lower prices obviously would lower risk protection available from crop insurance products.