2015 USDA Outlook Forum
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CHALLENGES AND OPPORTUNITIES FOR
WEST TEXAS FARMERS IN 2015

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Opportunities Arise In The Midst Of Challenges

- Agricultural Act of 2014
- Insurance
- Cotton Prices
- Unpredictable Weather
Agricultural Act of 2014

Accelerates the evolution from traditional farm price and income support to risk management, solidifying crop insurance as the primary tool for farmers in dealing with production and price risk. Farmers have more choices than ever, but that is good news.
Choose PLC or ARC

OLD FARM BILL

- Fixed payments-Direct, Counter Cyclical or ACRE (Average Crop Revenue Enhancement Program)

NEW FARM BILL

- Price Loss Coverage (PLC) or Agriculture Risk Coverage (ARC) for covered commodities
  - Cotton acres are GENERIC acres
  - Flexibility to plant other crops without penalty
LANDOWNER CHOoses PLC OR ARC

Title I

Base Reallocation Decision
Choice Between ARC and PLC
Choose ARC
Choose PLC
County
Individual

Title XI

Crop Insurance
Beginning in 2015 can choose SCO insurance option

Can choose to Update Payment Yield
INSURANCE – RISK MANAGEMENT FOR ANOTHER YEAR LIKE THIS
Old Farm Bill
- Insurance options were multi peril or hail

New Farm Bill
- STAX (Stacked Income Protection Plan) or SCO (Supplemental Coverage Option) layer over multi peril insurance
  - Offer the ability to fill the gap between coverage and deductible
  - More cost but better coverage
  - Lenders prefer the better coverage
Basic STAX Concept

Individual Revenue

Deductible

Individual Coverage

County Revenue

Deductible

STAX

County Revenue

> 90%, then no STAX indemnity

90%

70%

County Revenue at or below 70%, STAX indemnity at maximum

STAX may be purchased on its own
Basic SCO Concept

- Individual Revenue
  - Deductible
  - Individual Coverage

County Revenue

- Deductible
- SCO
  - 86% Coverage level

- County Revenue > 86%, then no SCO indemnity

SCO must be purchased along side individual policy.
COTTON PRICES
The legacy of machine picked longer staple upland cotton is that when needed most, it will sustain and support the price of cotton in markets worldwide. This will be that year.
Mid South expected to fall 25.9%
  - In 2014, this area produced the longest staple high-grade US cotton, excluding AZ and CA

Arizona will crash by 60.4% - 59,000 acres

Texas falls the least – 13.8%
  - Fewer choices
  - Volatile weather
  - 58% of US production comes from the state with the most unpredictable weather

ICAC estimates consumption to outweigh production by 100,000 tons
  - Not substantial, but first time in five seasons
Breakeven cotton prices are obtainable for 2015/16 crop

- US, Australia, Brazil
- Predicted consumption from these 3 cotton nations is 18-19 M bales
- 2011/12, exports from Australia, Brazil, and US were 21.7 M bales
- 2012/13, record exports from Brazil, Australia, and US of 23.50 M bales
- 2013/14, exports fell to 17.5 M bales
- USDA predicts 2014/15 exports from these 3 countries to be 16.4 M bales
- Size of that shortfall will drive the cotton market
- 2015 – farmers need to be patient pricing their cotton
How long before there’s a dog fight?
West Texas Weather – always interesting and never boring
2011 Drought
Several inches of snow, rain and ice in early January
Agricultural Act of 2014 offers more combinations of choices
- Generic cotton acres in Texas offer diversification possibilities
- Focus on insurance more than direct payments
- Insurance offers broader coverage
  - More cost with more protection
- Prices in the next two months will be key to planting decisions
- We can make weather predictions all day, but reality is what determines the crop
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