Projected Prices for 2018: More of the Same?

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Projected prices for 2018 crop insurance policies will not be set until February for corn and soybean grown in the Midwest states. However, current levels of futures contracts provide estimates of likely levels of 2018 projected prices. At this point, futures prices suggest that the 2018 projected price for corn will be near the 2017 price of $3.96 per bushel. The 2018 projected price for soybeans likely will be near but lower than the 2017 projected price of $10.19 per bushel.

Background

Projected prices are used to set minimum guarantees for Revenue Protection (RP), a revenue insurance used on over 78% of the corn acres planted in Illinois (farmdoc daily, December 13, 2016). In addition, the projected price sets the per bushel payment on yield shortfalls associated with Yield Protection (YP). Once set, projected prices determine the overall level of revenue and yield protection offered by crop insurance.

Projected prices are set using prices of futures contracts. As a result, projected prices vary from year-to-year based on market conditions. For corn grown in Midwest states, the projected price is the averaged of settlement prices of the December Chicago Mercantile Exchange (CME) contract during the month of February For soybeans grown in Midwest states, the projected price is the average of settlement prices of the November CME contract during also the during the month of February.

Outlook for Corn Projected Price

Currently, the December 2018 corn contract is trading near $4.00 per bushel. A 2018 projected price of $4.00 would be roughly the same projected prices as in the last three years: $4.15 in 2015, and $3.86 in 2016 and $3.96 in 2017 (see Figure 1). Therefore, guarantees will be roughly the same level in 2018 as in the last three years. Those levels are lower than from 2007 through 2014 when the projected price averaged $4.93 per bushel.

Outlook for Soybeans Projected Price

Currently, the November 2018 soybean contract is trading near $9.80 per bushel. A 2018 projected price of $9.80 would be in the same range as projected prices since 2015: $9.74 in 2015, $8.85 in 2016, and $10.19 in 2017 (see figure 2). A $9.80 price for 2018 would be slightly lower than the $10.19 price in
2017 but higher than the 2016 price of $8.85. Similar to corn, projected prices have been lower since 2015 than in the years from 2007 through 2014 when the projected price average $11.22.

Commentary

Crop insurance provides valuable revenue and yield protection to farmers. However, use of RP will not set a revenue guarantee that covers all costs on most farms. As a result, farmers will face losses if they receive crop insurance payments in 2018.

The projected prices in recent years are somewhat of a “broken record” in that the outlook is very similar in each year since 2015. Given that trend yields are received, projected prices are at levels that, at best, reflect marginal profitability on many farms. Hence, farmers can only use crop insurance to cut off the severity of losses if revenues turn out to be low or yields turn out to be low.

Reference