



2015 USDA Outlook Forum

February 20, 2015

CHALLENGES AND OPPORTUNITIES FOR
WEST TEXAS FARMERS IN 2015



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CropMark Select

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

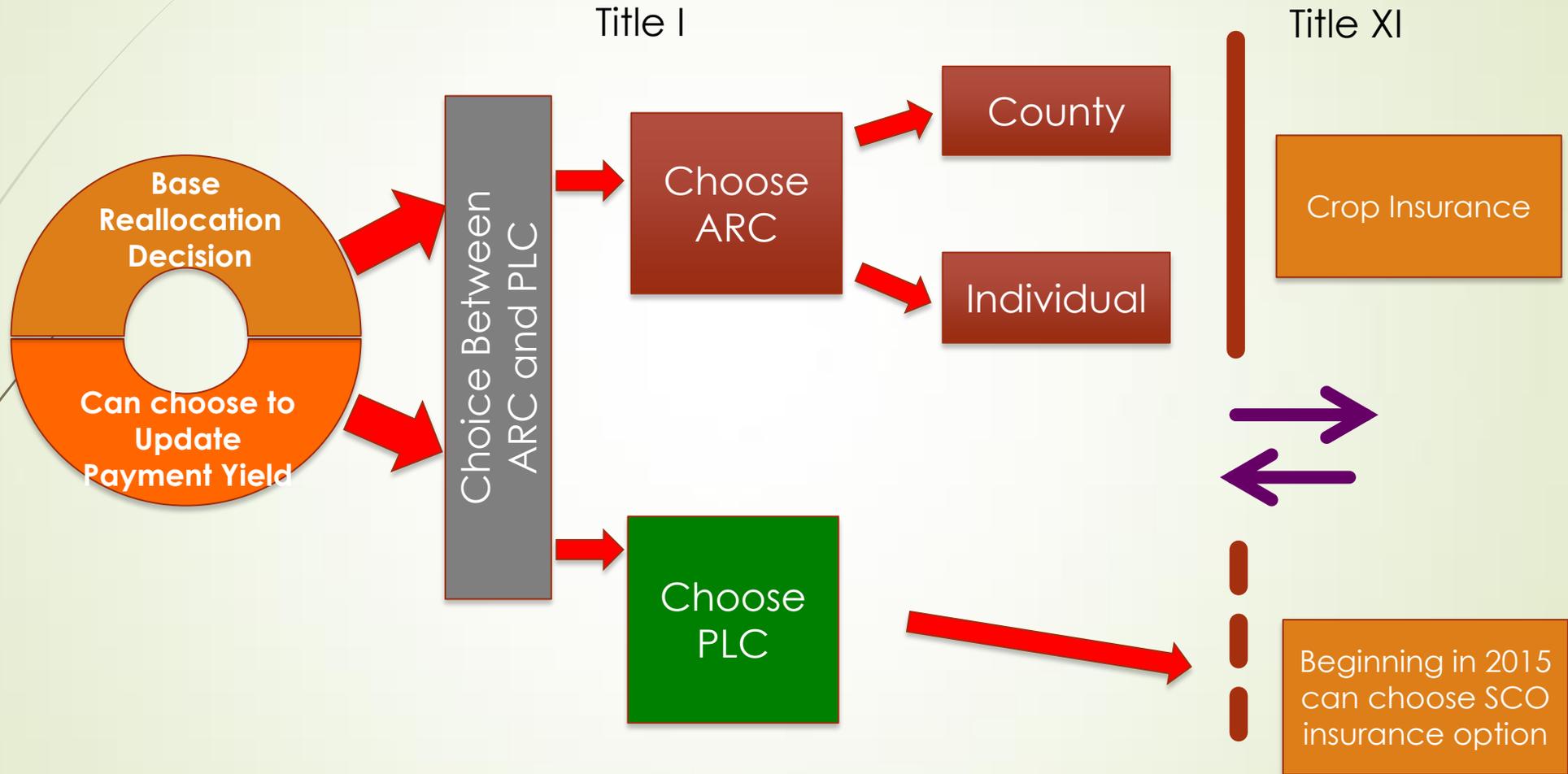
OLD FARM BILL

- ▶ 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



INSURANCE – RISK MANAGEMENT FOR ANOTHER YEAR LIKE THIS



INDIVIDUAL INSURANCE COVERAGE OR COMBINE WITH SCO OR STAX

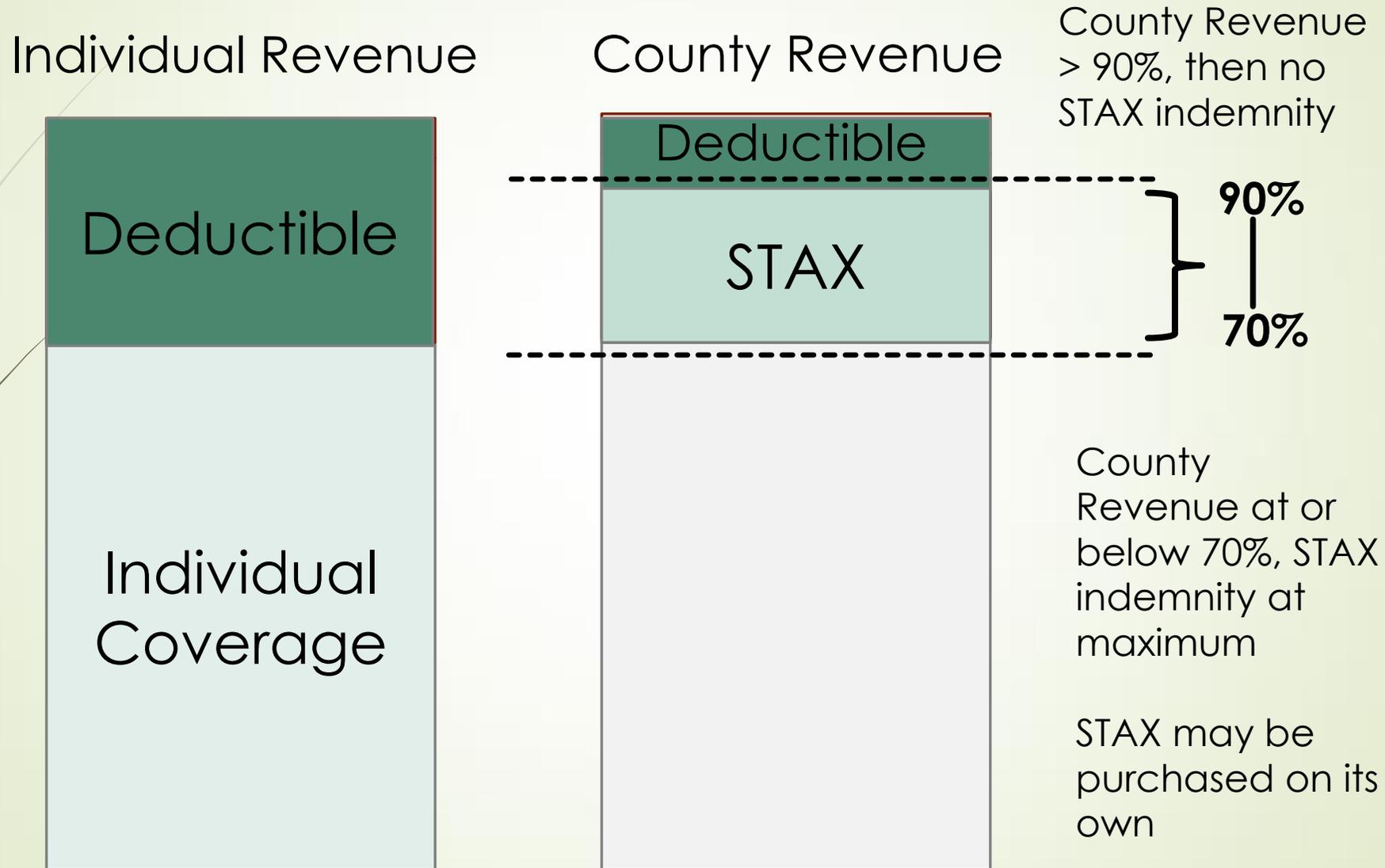
Old Farm Bill

- ▶ Insurance options were multi peril or hail

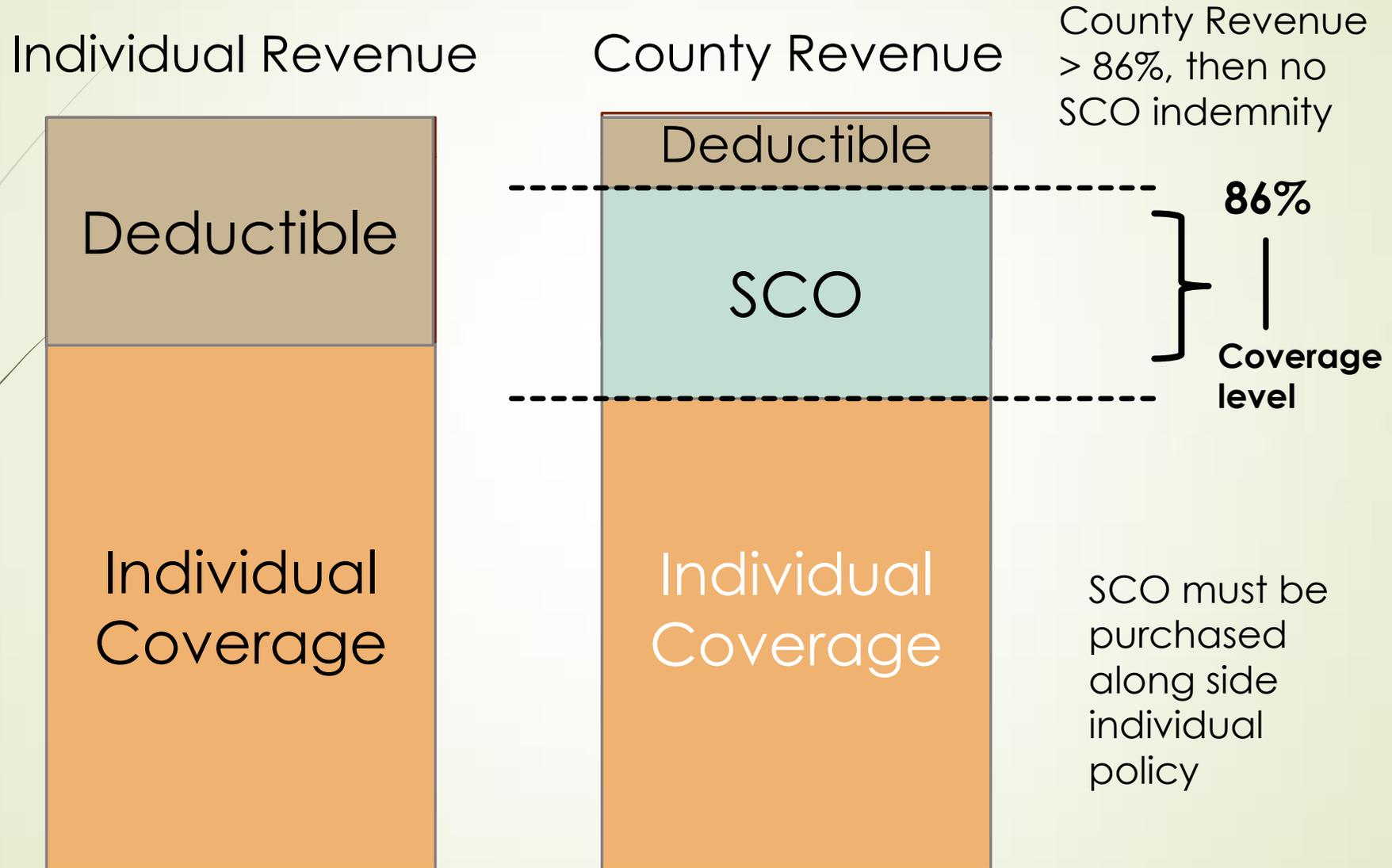
New Farm Bill

- ▶ 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



Basic SCO Concept

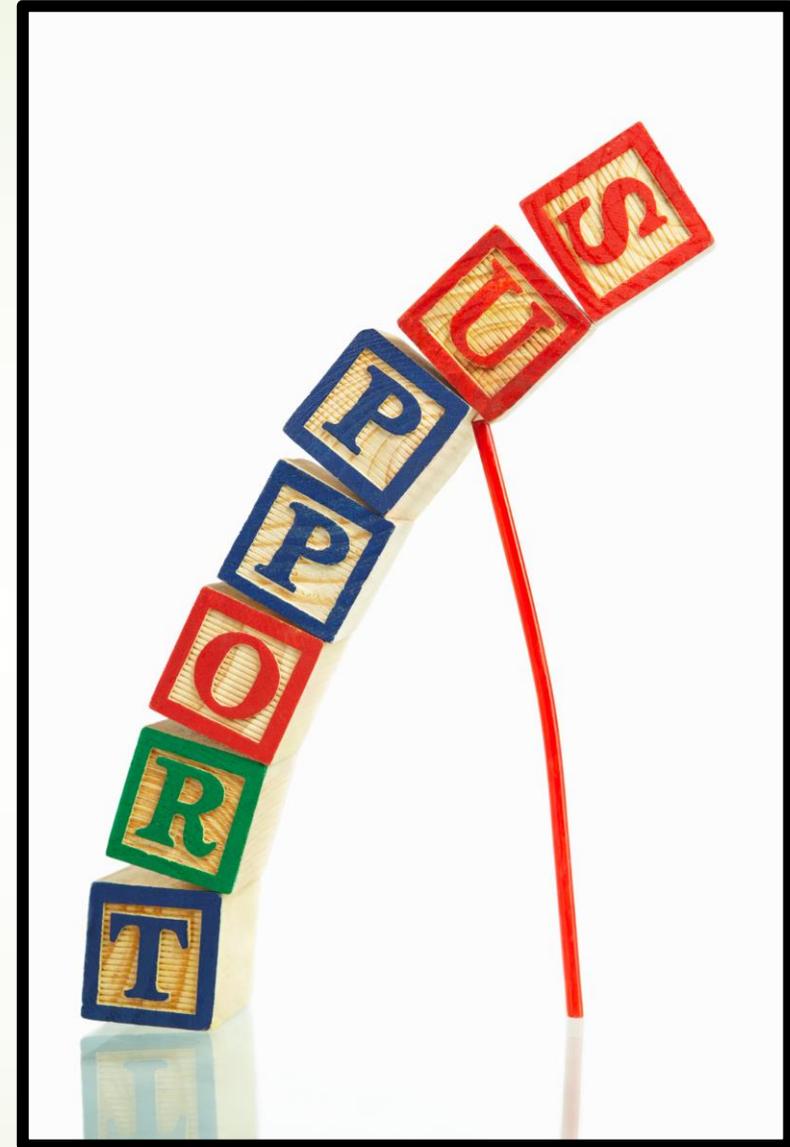


COTTON PRICES





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 world wide. This will be that year.



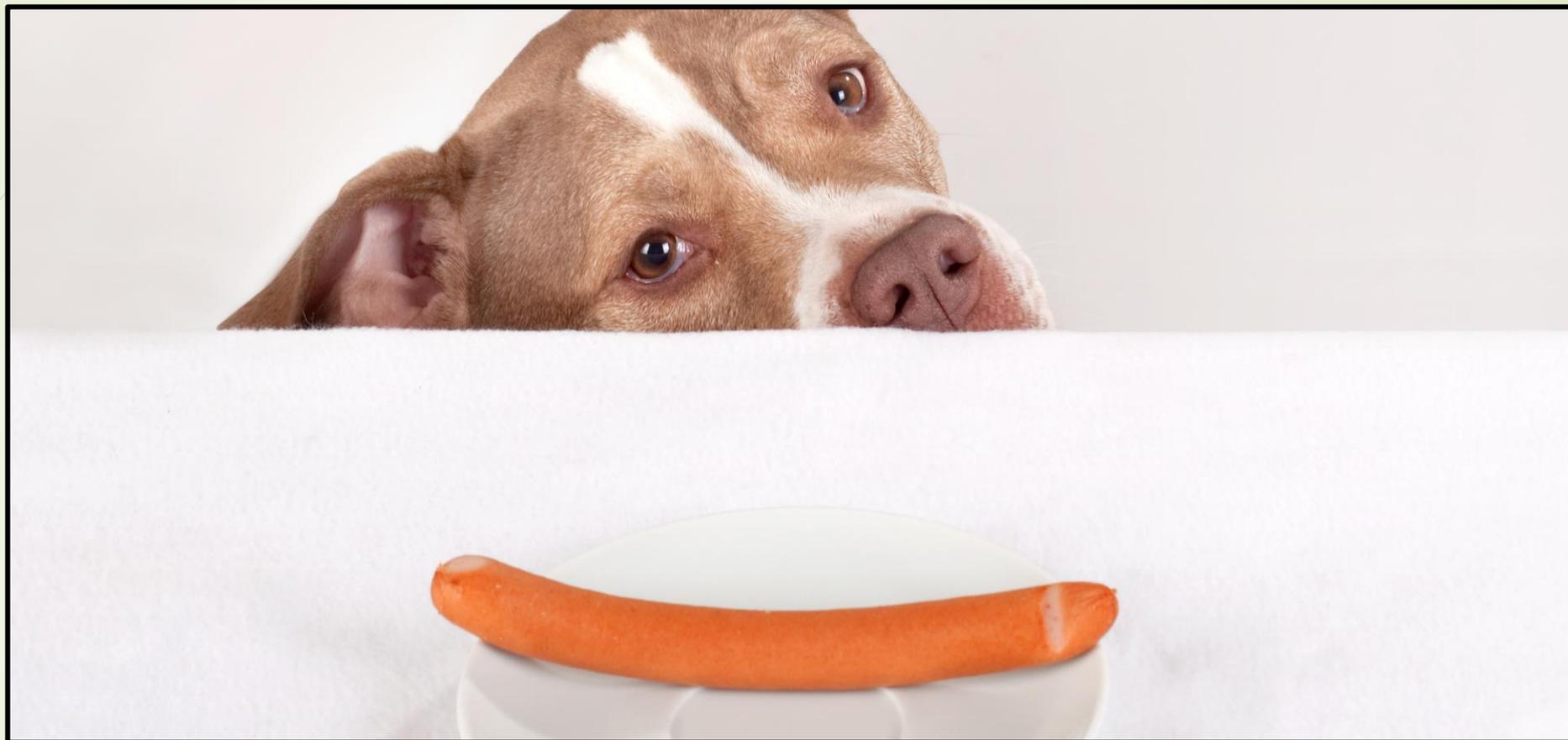


NCC – 9.427 M US ACRES

- ▶ 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

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- 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 had record exports from Brazil, Australia, and US of 23.50 M bales
 - 2013/14, exports fell to 17.4 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

Breakeven cotton prices are obtainable for 2015/16 crop



How long before there's a dog fight?

West Texas Weather – always interesting and never boring



2011 Drought

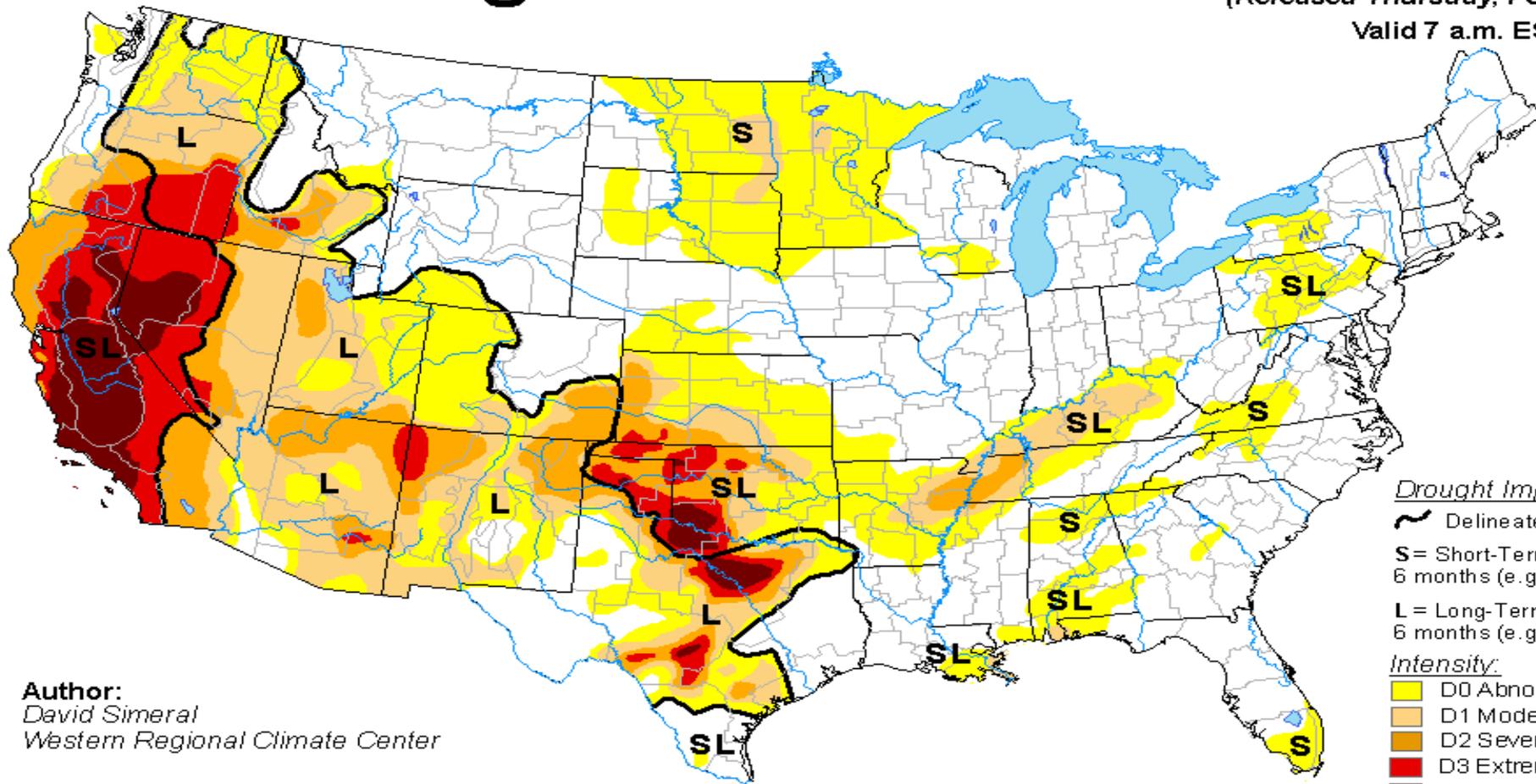


Several inches of snow, rain and ice in early January



U.S. Drought Monitor

February 10, 2015
(Released Thursday, Feb. 12, 2015)
Valid 7 a.m. EST



Author:
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Western Regional Climate Center

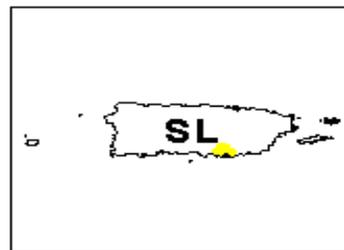
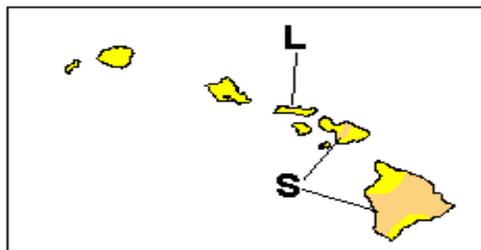
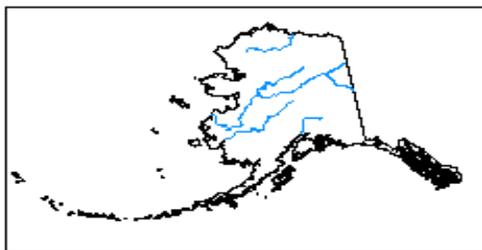
Drought Impact Types:

- ~ Delineates dominant impacts
- S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:

- Yellow: D0 Abnormally Dry
- Light Orange: D1 Moderate Drought
- Dark Orange: D2 Severe Drought
- Red: D3 Extreme Drought
- Dark Red: D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



<http://droughtmonitor.unl.edu/>



2015-New opportunities and challenges

- ▶ 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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