



Diversified
Services

Midwest Ag Finance

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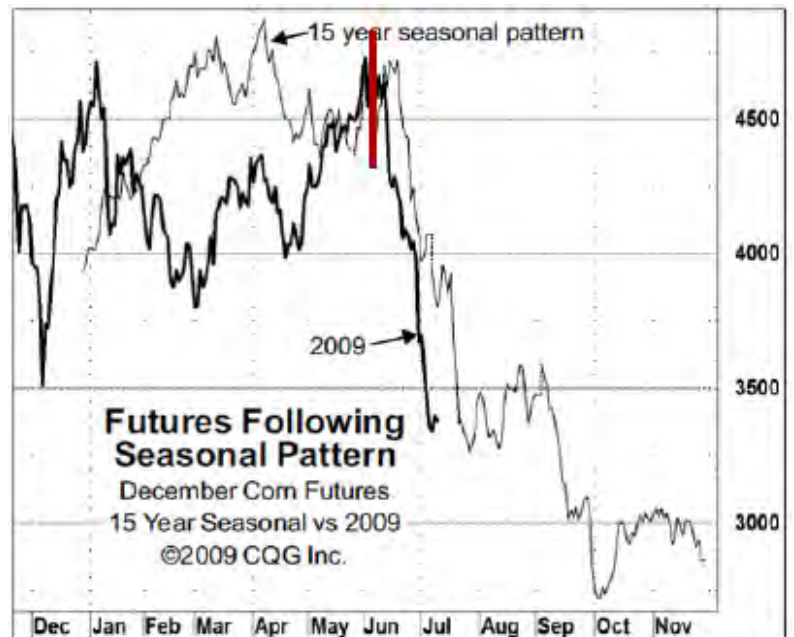
The DS "Afterburner" Put Option Program

With the market volatility seen the last few years, the interest among producers in using put options to set price floors has grown. The difficulty that producers often have, similar to just making sales, is picking the right time to take the plunge. But one thing we do know is that year in and year out, we typically see our best prices from spring to early summer, when there's the most uncertainty with the growing crop. The chart top/right shows the 15-year average of December corn futures (gray line), and indicates that the high period for corn prices over that 15 year period has been from March through June. And in 2009 (black line), December corn spiked up to a high in early June before falling sharply into early September. What will prices do this year? So far we've yet to see the traditional summer rally, and December '10 corn futures (lower/right) have been range-bound from \$3.70-3.95 over the last several weeks.

This year we've set up a program to buy put options that we've nicknamed the "Afterburner". The program is ideal for producers who would like to increase the amount of bushels they've "floored" without having to make the decision of when to pull the trigger in the time of year when prices most need to be defended! Here are the details for execution of the Afterburner program:

- Producer must **open hedge account** with Diversified Services / MF Global to participate;
- Prior to June 1, producer must **place order** with DS to purchase desired options;
- Producer can choose to purchase either a) **at-the-money put options**, or b) **10% out-of-the-money put options** (less cost, less reward);
- Orders will be placed on June 1 to purchase the desired put options the **first time the 14-day Relative Strength Index (RSI)** – green line at bottom of chart – on the respective chart (corn or soybeans) reaches 60 (indicating some rally has taken place);
- Orders will be kept open until either a) they are filled, or b) by **July 15, 2010**;
- Producers will be notified when order filled or not; funds to cover cost of trade plus fees will be due at that time;
- **December corn put options will expire on November 26, 2010**; **November soybean put options will expire on October 22, 2010**; producers must make final decision to liquidate options or hold until expiration.

This is a good program to take advantage of seasonal market moves, to set a price floor under more new crop bushels, and keep the market upside open just in case we see one of those strange late summer rallies. Call your Diversified Crop Insurance Agent very soon to find out how you can participate for 2010!





May USDA S&D Report

The quick summary of the May USDA Report is that it looks a **little bullish for corn** and a **little bearish for soybeans and wheat**. The most bullish part for corn was an increase in old crop demand from both ethanol and exports (go China!), which cut old crop ending stocks to 1.738 bln bu. USDA kept old crop soybean stocks unchanged at 190 mln bu.

US Production (million bushels)			
	2010 USDA	2009 USDA	Change vs Previous
Corn	13370	13110	+ 260
Soybeans	3310	3359	- 49
Wheat	2043	2216	- 173

USDA is starting 2010 with a **corn** yield of 163.5 bpa (down 1.2 vs LY), a **soybean** yield of 42.9 bpa (down 1.1 vs LY), and a **wheat** yield of 43.4 bpa (down 1.0 vs LY). With corn acres expected up over 2 million, total production would be over 13.3 bln bu. Soybean production is estimated a little over 3.3 bln bu, and wheat more than 2.0 bln bu.

US Demand (million acres)			
	2010-11 USDA	2009-10 USDA	Change vs Previous
Corn	13300	13055	+ 245
Soybeans	3144	3323	- 179
Wheat	2106	2038	+ 68

USDA remained aggressive with its **corn** demand figure, coming mostly from bumps in ethanol and exports. 13.300 bln bu would be a record, and would nearly match the production estimated, thus keeping stocks nearly unchanged (1.818 bln bu). USDA cut **soybean** demand nearly 200 mln bu, about half coming from crush and half from exports. This is due to expected strong competition from South America following their record production this year. Thus, with a decent crop, soybean stocks should rise this year (as we've expected), with USDA's estimate at 365 mln bu. And what else can be said about **wheat** – we cut over 5 mln acres in the US and stocks are still expected to rise to almost 1 billion bushels! Wheat price will need to remain cheap vs corn.

US Ending Stocks (million bushels)			
	2010-11 USDA	2009-10 USDA	Change vs Previous
Corn	1818	1738	+ 80
Soybeans	365	190	+ 175
Wheat	997	950	+ 47

Need to Replant Corn or Soybeans?

Remember - IF you have an individual policy, and IF you have some acreage that you think needs to be replanted, you must call your agent first! Your agent will in turn have an adjuster call you back quickly with a plan to either inspect the field or allow you to self-certify IF the acreage to be replanted is less than 50 acres. But in order to receive a reimbursement from your policy for replanting, you must speak with an adjuster prior to doing so!

ACRE - 2010 Decision Time

June 1 is the last date to sign up new farms for the ACRE program for 2010 (and '11 & '12). Remember that when you enroll a farm in the ACRE program, that farm will remain in the program through 2012. A quick look at the 2009 performance for ACRE still shows that Illinois and North Dakota look to be the only states that may receive an ACRE payment on corn (none on soybeans).

Looking ahead to 2010, ACRE can provide a revenue floor for both corn and soybeans. **USDA is beginning the year estimating the Average Farm Price for corn to be \$3.20-3.80 and for soybeans to be \$8.00-9.50.** Even with good state yields in 2010, prices at the bottom end of these ranges could trigger ACRE payments in many states.

For example, the corn matrix for Indiana (below) shows that a state yield of 160 bpa and an average farm price of \$3.40 would trigger a payment of \$17.92/acre

Diversified Services ACRE Matrix USDA FSA										
ACRE: State-Based (Indiana) Revenue Program for 2010 Corn										
Avg Price	Average Indiana State Yield (based on planted acres)									
	132	136	140	144	148	152	156	160	164	168
\$ 4.10	\$ 20.36	\$ 6.07								
\$ 4.00	\$ 31.86	\$ 17.92	\$ -3.98							
\$ 3.90	\$ 43.36	\$ 29.77	\$ 16.18	\$ 2.59						
\$ 3.80	\$ 54.85	\$ 41.61	\$ 28.37	\$ 15.13	\$ 1.89					
\$ 3.70	\$ 66.35	\$ 53.46	\$ 40.57	\$ 27.68	\$ 14.78	\$ 1.89				
\$ 3.60	\$ 77.85	\$ 65.31	\$ 52.76	\$ 40.22	\$ 27.68	\$ 15.13	\$ 2.59			
\$ 3.50	\$ 89.35	\$ 77.15	\$ 64.96	\$ 52.76	\$ 40.57	\$ 28.37	\$ 16.18	\$ 3.98		
\$ 3.40	\$ 100.85	\$ 89.00	\$ 77.15	\$ 65.31	\$ 53.46	\$ 41.61	\$ 29.77	\$ 17.92	\$ 6.07	
\$ 3.30	\$ 112.35	\$ 100.85	\$ 89.35	\$ 77.85	\$ 66.35	\$ 54.85	\$ 43.36	\$ 31.86	\$ 20.36	\$ 8.86
\$ 3.20	\$ 123.85	\$ 112.70	\$ 101.55	\$ 90.40	\$ 79.24	\$ 68.09	\$ 56.94	\$ 45.79	\$ 34.64	\$ 23.49
\$ 3.10	\$ 135.34	\$ 124.54	\$ 113.74	\$ 102.94	\$ 92.14	\$ 81.34	\$ 70.53	\$ 59.73	\$ 48.93	\$ 38.13
\$ 3.00	\$ 146.84	\$ 136.39	\$ 125.94	\$ 115.48	\$ 105.03	\$ 94.58	\$ 84.12	\$ 73.67	\$ 63.22	\$ 52.76

The soybean matrix for Indiana (below) shows that a state yield of 46 bpa and an average farm price of \$8.00 would trigger a payment of \$18.49/acre.

Diversified Services ACRE Matrix USDA FSA										
ACRE: State-Based (Indiana) Revenue Program for 2010 Soybeans										
Avg Price	Average Indiana State Yield (based on planted acres)									
	43	44	45	46	47	48	49	50	51	52
\$ 9.25										
\$ 9.00										
\$ 8.75	\$ 10.18	\$ 1.38								
\$ 8.50	\$ 21.00	\$ 12.45	\$ 3.89							
\$ 8.25	\$ 31.82	\$ 23.52	\$ 15.22	\$ 6.91						
\$ 8.00	\$ 42.64	\$ 34.59	\$ 26.54	\$ 18.49	\$ 10.44	\$ 2.38				
\$ 7.75	\$ 53.45	\$ 45.66	\$ 37.86	\$ 30.06	\$ 22.26	\$ 14.46	\$ 6.66			
\$ 7.50	\$ 64.27	\$ 56.72	\$ 49.18	\$ 41.63	\$ 34.08	\$ 26.54	\$ 18.99	\$ 11.44	\$ 3.89	
\$ 7.25	\$ 75.09	\$ 67.79	\$ 60.50	\$ 53.20	\$ 45.91	\$ 38.61	\$ 31.32	\$ 24.02	\$ 16.72	\$ 9.43
\$ 7.00	\$ 85.91	\$ 78.86	\$ 71.82	\$ 64.77	\$ 57.73	\$ 50.69	\$ 43.64	\$ 36.60	\$ 29.55	\$ 22.51

Your DS agent would be glad to put your numbers in this matrix to show how ACRE would work for you in 2010!