

Barley Pricing Methodology

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Barley is traded on the Intercontinental Exchange (ICE), however recent trade volume is insufficient for program purposes. Under the Common Crop Insurance Policy (COMBO), it is necessary to calculate a price in real time. Risk Management Agency’s (RMA) authority to derive a barley price factor is found in the Commodity Exchange Price Provisions (CEPP), informing stakeholders that the price will be based off another futures contract with a factor applied to it, “as determined by RMA.” Beginning with the 2012 crop year (CY), the factor became the same for all sales closing dates and both projected and harvest prices for a given crop year. All three plans of insurance associated with the COMBO policy use the same methodology to determine a factor. Data are gathered from the National Agricultural Statistics Service (NASS) and Barchart.com.

Feed Barley, All states and counties except Alaska

A 10 year simple average of yearly data is used as the factor methodology for barley. Two price series are used to establish the relative values of barley and corn. The first is the NASS marketing year average price for feed barley. The second is the CBOT September corn contract (CU) price. CBOT September corn quotes from August 1st to August 31st are compiled for each year historically then averaged together in the same manner as prescribed by the CEPP. This timeframe represents the most common harvest period for barley in the CEPP, as well as the most common for the major barley producing states. For each year, the ratio between the feed barley price and CBOT corn price is calculated, and then the most recent 10 years of ratios are averaged together. This final calculation results in a factor. The factor is then applied to the discovered corn prices as instructed by the CEPP. The formula is expressed as:

$$\frac{\sum_{i=t_x-12}^{t_x-2} \frac{Barley_{Nass_i}}{Corn_{CBOT_i}}}{10} \times Corn_{CBOT_{t_x}} = Barley_{Combo} \tag{1}$$

Given the lag between the most recently reported marketing year average price for feed barley and the CBOT corn contract used to price the current insurance offer, the factor uses data from two years prior to the current offer as the most recent. For example, for the 2014 CY barley product, the factor is calculated with data from 2003 – 2012.

Feed Barley, Alaska only

Beginning with the 2003 CY, RMA has developed a separate price election for Alaska barley. This was done at the recommendation of the Spokane Regional Office and supported by the Alaska barley growers. NASS publishes annual Alaska barley price data.

Beginning with the 2014 CY, a 5 year simple average of yearly data is used as the factor methodology for barley. Two price series are used to establish the relative values of Alaska barley and corn. The first is the NASS marketing year average price for Alaska barley. The second is the CBOT September corn contract (CU) price. CBOT September corn quotes from August 1st to August 31st are compiled for each year historically then averaged together in the same manner as prescribed by the CEPP. For each year, the ratio between the feed barley price and CBOT corn price is calculated, and then the most recent 5 years of ratios are averaged together. This final calculation results in a factor. The factor is then applied to the discovered corn prices as instructed by the CEPP.

Given the lag between the most recently reported marketing year average price for Alaska barley and the CBOT corn contract used to price the current insurance offer, the factor uses data from two years prior to the current offer as the most recent. For example, for the 2014 CY barley product, the factor is calculated with data from 2003 – 2012.