

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — WEDNESDAY, JAN. 9, 2019 — except where noted



ZACH MYERS
Risk Education
Manager
336-468-0726
zmyers@centerfordairy
excellence.org



Dairy Margin Coverage: There is a lot of talk about the new Agriculture Improvement Act of 2018, specifically what are the differences between the new Dairy Margin Coverage (DMC) and the previous Margin Protection Program (MPP). Over the next few weeks, I hope to provide some explanation about the DMC so that farmers can start thinking about how you want to participate. There was not much participation in the MPP during the span of the Agriculture Act of 2014.

Even when the rules were changed by the Bipartisan Budget Bill of 2018, and dairy farmers could sign up for guaranteed net money, a very small portion of Pennsylvania farmers elected to participate. Perhaps this was a function of the ineffectiveness of the previous MPP. I hope to change that perception.

Many improvements were made in the new DMC program that should make it an affordable part of a risk management portfolio regardless of dairy size. Several differences exist between MPP and DMC, and all will not be able to be discussed in one update. Prior to explaining the differences, it is important to understand two things that did not change.

The USDA still calculates the margin each month using All Milk, Alfalfa Hay, Soybean Meal, and Corn prices. Production History (PH) is still the highest annual production from 2011, 2012, or 2013. So, if you signed up for the MPP, then your PH will be the same for DMC. If you did not sign up for MPP or have a new dairy, your PH will be established using the rules defined in the Agriculture Act of 2014.

The differences that I would like to briefly explain this week are Tier 1 and Tier 2 definitions, margin thresholds and percent production covered. For DMC, Tier 1 is defined as dairies with 5 million pounds and less annual production and Tier 2 is greater than 5 million pounds of annual production. This represents an increase from 4 million pounds of production for MPP and allows

for medium size dairies to take better advantage of the cheaper Tier 1 premium pricing.

The margin threshold was also increased to a max of \$9.50 from \$8.00 for Tier 1 dairies.

Tier 2 dairies are still maxed at \$8.00 for any volume covered above 5 million pounds. The accompanying graph shows the historic margins from Jan. 2014-Dec. 2018 compared to the new maximum threshold of \$9.50. It shows that a payment would have been triggered in two-thirds of the months if the \$9.50 threshold was available during this time period.

The coverage range was also expanded. The range of production coverage is now 5%-95% for DMC compared to 25%-90% for MPP. The wider range allows smaller farms to cover a larger volume of PH, while allowing larger farms to take advantage of significantly lower premiums. At 25% volume covered, premiums for Tier 2 dairies were not economically feasible in the MPP.

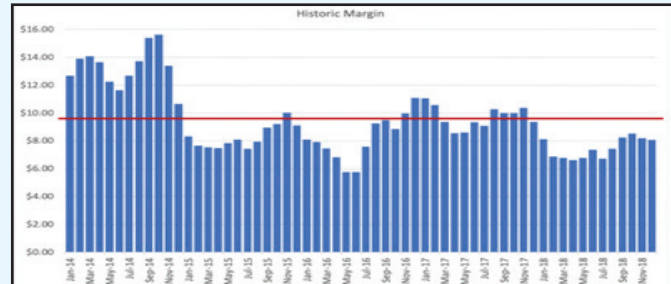


Figure 3. Monthly Milk-Feed Margins, January 2014 through December 2018

Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the CDE Scorecard.

CME DAILY FUTURES & OPTIONS TRADING — JAN. 9, 2019 AT THE CLOSE

	JAN-19	FEB-19	MAR-19	APR-19	MAY-19	JUN-19	JUL-19	AUG-19	SEP-19	OCT-19	NOV-19	DEC-19	TREND
CLASS III MILK FUTURES (\$/CWT)	14.08	14.41	14.88	15.31	15.70	15.93	16.26	16.46	16.65	16.59	16.49	16.36	↓
WEEK AGO	14.30	14.75	15.07	15.48	15.81	16.02	16.33	16.52	16.73	16.65	16.52	16.39	
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED													
17.05 02/17	17.27 08/17	16.85 02/17	16.75 02/17	16.90 02/17	16.85 02/17	16.90 02/17	16.90 02/17	16.90 02/17	16.92 02/17	16.65 01/19	16.52 01/19	16.40 01/19	
14.03 12/18	14.41 01/19	13.50 01/18	13.60 01/18	13.85 01/18	13.75 01/18	13.62 01/18	13.62 01/18	13.55 01/18	13.75 01/18	14.08 11/18	14.08 11/18	14.60 11/18	
MILK BASIS (\$/CWT) — PA BASIS & 2014-16 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)													
PA 2.30	1.81	1.58	1.19	1.60	1.28	1.01	0.85	1.33	1.87	1.70	2.75		
*AVG 2.70	2.25	2.02	1.25	2.14	1.80	1.12	0.90	1.32	1.82	1.65	2.72		
EXPECTED LGM GROSS MARGINS* (at 0.00 deductible) per cwt. based on futures prices for Class III milk, soybeans, corn as of Dec. 13, 14 and 15, 2018													
N/A	5.97	6.53	6.92	7.10	7.27	7.51	7.72	7.93	7.80	7.73	N/A		
3-YR. AVG LGM ACTUAL GROSS MARGINS (at 0.00 deductible) per cwt. based on historical futures contract close-out prices Class III milk, soybeans and corn													
6.85	6.85	5.99	6.65	6.33	6.06	5.72	4.94	4.15	5.26	5.62	6.52		
MPP OFFICIAL GROSS MARGINS & 1-MO 2018 ON per cwt. (USDA All-Milk, corn & alfalfa hay and Illinois soybean prices, feed for all classes of dairy cattle on the farm)													
SEPT-OCT-17	NOV-DEC-17	JAN-18	FEB-18	MAR-18	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	SEP-18	*OCT-18	*NOV-18	
9.99	9.88	8.12	6.88	6.77	6.62	6.78	7.37	6.72	7.43	8.26	8.96		↑
U.S. AVG ACTUAL MILK MARGIN per cwt. based on 75-lb herd average and USDA's All-Milk price, USDA-reported corn & alfalfa hay & Ill. soybean prices (lactating herd only)													
DEC-17	JAN-18	FEB-18	MAR-18	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	*SEP-18	*OCT-18	*NOV-18		↑
12.16	10.95	9.97	9.62	9.82	10.04	10.40	9.62	10.24	*11.00	*11.81	*11.67		↑
PA AVG ACTUAL MILK MARGIN per cwt. based on 75-lb herd average and USDA's PA All-Milk price, USDA corn & alfalfa hay & Buff., NY soybean prices (lactating herd only)													
12.32	10.89	10.08	9.90	10.25	10.71	11.10	10.26	10.04	*11.01	*13.04	*13.27		↑

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per dailydairyreport.com)																							
14.00	0.04	14.50	0.27	14.75	0.28	15.25	0.38	15.75	0.52	16.00	0.58	16.25	0.59	16.50	0.68	16.75	0.75	16.50	0.64	16.50	0.71	16.50	0.80
MAR-19				MAY-19				JUL-19				DEC-19				Example Daily Strike							
CORN (\$/BU) OPTIONS — CALLS														SOYMEAL (\$/TON) OPTIONS — CALLS									
3.45	31.10	3.60	26.70	3.70	27.70	3.90	27.90	4.00	02.40	4.30	03.10	4.50	04.30	4.80	06.60	290	25.00	290	25.50	300	26.00	310	23.40
CORN FUTURES (\$/BU)														SOYMEAL FUTURES (\$/TON)									
MAR-19	MAY-19	JUL-19	SEP-19	DEC-19	FEB-20	MAY-20	JUL-20	SEP-20	DEC-20	JUL-21	SEP-21		TREND										
3.800	3.880	3.956	3.984	4.026	4.114	4.166	4.214	4.134	4.132	4.216	4.222		↑										
WEEK AGO														3.756 3.834 3.910 3.936 3.982 4.072 4.126 4.172 4.096 4.112 4.194 4.200									

PA MILK MARGIN & IOFC-LATEST PSU VALUES- NOV. 2018																			
FEED = \$/CWT	NOV	6.16	↑	9.95	↑	13.27	↑	CME DAIRY CASH-SETTLED FUTURES (\$/LB)						01/09/19	SPOT CASH	TREND			
IOFC = \$/COW	PREV MO	6.11		9.78		13.04		JAN	FEB	MAR	APR	MAY	JUN	JUL	01/09/19				
YR AGO	YR AGO	6.15		9.56		12.75		0.947	0.977	0.998	1.020	1.034	1.049	1.061	↑	0.9900	↑		
*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)														*DEC 2018 COMPONENTS					
*CL I ADV	*CL II	*CL III	*CL IV	ALL-MILK-U.S	ALL-MILK-PA	*WEIGHTED AVG. 4-WK DEC. 1-31, 2018						*DEC 2018 COMPONENTS							
*15.12(JAN)	*15.67(DEC)	*13.78(DEC)	*15.09(DEC)	17.40(OCT)	18.10(OCT)	*PRODUCT VALUE MAKE ALLOW NET						*PROT 1.1417							
MONTH AGO														*CHEESE 1.3742 0.2003 1.1739			*B.FAT 2.5080		
YEAR AGO														*BUTTER 2.2425 0.1715 2.0710			*N.FAT 0.7269		
15.05 15.63 14.43 15.06 16.70 17.10														*NFDM 0.9020 0.1678 0.7334			*OTHER 0.2775		
15.44 14.49 15.44 13.51 17.90 18.60														*DRYWHEY 0.4685 0.1991 0.2017					

USDA SEPT. 2018 ALL-MILK MAILBOX																													
*FL	\$19.90	\$18.16	*WI	\$17.50	\$17.20	*SE	N/A	\$16.43	*U.S.	\$16.70	\$16.25	*APPAL	\$17.50	\$16.24	*NY	\$17.10	\$16.12	*PA	\$17.10	\$15.89	*OH	\$16.40	\$15.86	*MI	\$16.00	\$15.86	*IN	\$15.40	\$14.81

CATTLE - DAIRY PURPOSES(\$/HD) NORTHEAST (Avg. Dec. 19, 2018 sale New Holland, PA) *MOST RECENT REPORT																					
COWS Fresh	975	Bred	900	Springing	1000	HEIFERS: Bred	650	Springing	700	Open:	300-600 lbs	335	600-900 lbs	435	900-1200 lbs	675	BULLS (600-1800 lb)	750			
FOUR WEEK RUNNING AV4														975 875 950 650 725 325 400 650 725							
Avg. of prices reported by USDA Market News for PA & NY Auction Markets Jan. 3-8, 2019														FED HOLSTEIN STEERS (\$/CWT LIVEWEIGHT)				CURRENT WEEK AGO YR AGO			
CULL MARKET COWS (\$/CWT LIVEWEIGHT)														Choice & Prime 1250-1550 lbs light test				85.00 83.00 82.00			
Premium White Breakers Boners Lean														BULL CALVES: No. 1 & 2, 90-130 lbs				50.00 45.00 135.00			
N/A														80-90 lbs				25.00 12.00 105.00			
WEEK AGO																					
YEAR AGO																					
N/A																					

Price averages do not include lower-end common cows and heifers.													
Average to high dressing													
N/A													
N/A													
N/A													

brought to you by: