

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUESDAY, FEB. 5, 2019 — except where noted



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Dairy Revenue Protection: The days of dairy farmers putting in a day's hard work and having enough money in the milk check to cover expenses and live off of are, sadly, gone. Hard work, alone, is no longer enough to survive in today's dairy industry. Part of the day's hard work must now include developing a business strategy to make it through an extended downturn. Over the last several months, the development of the Dairy Revenue Protection (DRP) and Dairy Margin Coverage (DMC) programs have become viable risk management options. I have already discussed the new DMC program and would like to discuss the Dairy Revenue Protection (DRP) Program, as well.

Last year, USDA introduced the DRP program. The DRP is an insurance program developed by the American Farm Bureau Federation (AFBF) and administered by the USDA Risk Management Agency (RMA). The DRP allows farmers to purchase insurance policies to protect quarterly revenue.

Farmers can choose to protect revenue based on a combination of Class III and Class IV prices or based on components (% of butter fat, protein, and other solid): 70 to 95% of quarterly production can be covered in 5% increments, and premiums for that coverage are subsidized from 44 to 55%.

Policies can be purchased up to five quarters in advance. For example, a farmer could purchase policies, today, to cover any or all quarters starting April 2019 and ending June 2020. Farmers must purchase policies through an Approved Insurance Provider (AIP). Class price, component price and policy premiums are based on CME futures, calculated and available for purchase daily. The premium for a policy will not be due until 30 to 60 days after the insured quarter.

The purpose of DRP is to help protect against quarterly revenue volatility by providing affordable insurance while minimizing the number of decisions a farmer needs to make. The accompanying graph was taken from a DRP webinar given by John Newton, Chief Economist for AFBF. It shows that revenue can be extremely volatile and can vary +/-20% over time. DRP may help smooth this volatility and protect against the lows observed in the graph.

There are three major decisions to make before purchasing a DRP policy. First, which option does the producer want to choose (Class price or Component)? Second, which quarter or quarters should be insured? Third, what percentage of quarterly production is to be insured? Of course, this is an over-simplification of the program because there a lot of different things a farmer will need to consider when determining how to use DRP. I will go into further detail next week.



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 — FEB. 5, 2019 AT THE CLOSE

	FEB-19	MAR-19	APR-19	MAY-19	JUN-19	JUL-19	AUG-19	SEP-19	OCT-19	NOV-19	DEC-19	JAN-20	TREND
CLASS III MILK FUTURES (\$/CWT)	13.93	14.20	14.48	15.00	15.42	15.87	16.15	16.35	16.32	16.27	16.21	15.89	↓
	14.05	14.39	14.57	15.06	15.48	15.90	16.20	16.40	16.39	16.32	16.20	16.19	
WEEK AGO													
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED													
	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	16.92 02/17	16.65 01/19	16.52 01/19	16.40 01/19	16.20 01/19	
	13.93 02/19	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	14.60 11/18	14.62 01/19	
MILK BASIS (\$/CWT) — PA BASIS & 2014-16 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)	PA 1.81	1.58	1.19	1.60	1.28	1.01	0.85	1.33	1.87	1.70	2.75	2.30	
*AVG =	2.25	2.02	1.25	2.14	1.80	1.12	0.90	1.32	1.82	1.65	2.72	2.70	
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)	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	
	9.88	8.12	6.88	6.77	6.62	6.78	7.37	6.72	7.43	8.26	8.96	8.66	↓
U.S. AVG MILK MARGIN per 100 lbs milk based on 75-lb herd avg & USDA's All-Milk price, USDA-reported corn & alfalfa hay & III. soybean prices (lactating feed only)	JAN-18	FEB-18	MAR-18	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	SEP-18	*OCT-18	*NOV-18	DEC-18	
	10.95	9.97	9.62	9.82	10.04	10.40	9.62	10.24	11.00	*11.73	*11.33	*10.84	↓
PA AVG MILK MARGIN per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA corn & alfalfa hay & Buff., NY soybean prices (lactating feed only)	JAN-18	FEB-18	MAR-18	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	SEP-18	*OCT-18	*NOV-18	DEC-18	
	10.89	10.08	9.90	10.25	10.71	11.10	10.26	10.04	11.01	*11.68	*12.32	*11.81	↓

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per dailydairyreport.com)													
	MAR-19	MAY-19	JUL-19	DEC-19	Example Daily Strike	MAR-19	JUL-19	SEP-19	DEC-19				
14.00 0.09	14.25 0.17	14.50 0.25	15.00 0.35	15.50 0.47	15.75 0.48	16.25 0.61	16.25 0.56	16.25 0.60	16.25 0.66	16.25 0.71	16.00 0.71		
CORN (\$/BU) OPTIONS — CALLS													
	MAR-19	MAY-19	JUL-19	DEC-19	Example Daily Strike	MAR-19	JUL-19	SEP-19	DEC-19				
3.45 33.70	3.60 29.30	3.70 31.10	4.00 27.00		285 28.20	300 25.65	300 29.20	310 26.35					
3.90 03.30	4.30 03.30	4.60 04.50	4.90 07.10		320 02.90	350 05.05	380 03.95	380 05.60					

CORN FUTURES (\$/BU)													
	MAR-19	MAY-19	JUL-19	SEP-19	DEC-19	MAR-20	MAY-20	JUL-20	SEP-20	DEC-20	MAR-21	MAY-21	TREND
3.800	3.880	3.956	3.984	4.030	4.120	4.174	4.220	4.150	4.142	4.142	4.220	4.242	↓
WEEK AGO													
3.812	3.896	3.974	3.994	4.036	4.126	4.182	4.226	4.156	4.152	4.152	4.234	4.256	

SOYMEAL FUTURES (\$/TON)													
	MAR-19	MAY-19	JUL-19	AUG-19	SEP-19	OCT-19	DEC-19	JAN-20	MAR-20	MAY-20	JUL-20	AUG-20	TREND
309.0	313.0	316.9	318.6	320.2	321.0	323.0	323.7	324.2	324.8	324.8	326.0	324.5	↓
WEEK AGO													
311.1	315.1	318.9	320.4	321.7	322.0	323.5	324.6	325.0	325.0	325.5	326.6	325.2	

* = NEW PA MILK MARGIN & IOFC—LATEST PSU VALUES— DEC. 2018					CME DAIRY CASH-SETTLED FUTURES (\$/LB)					02/05/19 SPOT CASH TRENDS			
FEED = \$/CWT.	FEED COST (\$/CWT milk)	IOFC (\$/COW @ 75 lbs milk)	PA MILK MARGIN (\$/CWT milk)		FEB	MAR	APR	MAY	JUN	JUL	AUG	02/05/19	TREND
DEC	6.42 ↑	8.86 ↓	11.81 ↓		NFDM	0.982	0.975	0.985	0.997	1.012	1.030	1.042	↓ 0.9800
IOFC = \$/COW	PREV MO	6.38	9.24	12.32	WHEY	0.455	0.433	0.410	0.402	0.388	0.391	0.389	↓ 0.3775
YR AGO	6.08	9.24	12.32		BUTTER	2.265	2.282	2.292	2.302	2.310	2.320	2.332	↑ 2.2775
					CHEESE	1.370	1.441	1.477	1.538	1.587	1.631	1.671	↓ See Below
					CME SPOT CHEESE: BARRELS 1.2695 / 40 LB BLOCKS 1.4575 ↑ / ↑								

* = NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB) * = NEW						
CL I ADV↑	CL II↑	CL III↑	CL IV↑	*ALL-MILK-U.S.	*ALL-MILK-PA	*WEIGHTED AVG. 4-WK	JAN. 1 - 26, 2019	PRODUCT	VALUE	MAKE ALLOW	NET	*JAN. 2019 COMPONENTS
15.30(FEB)	15.74(JAN)	13.96(JAN)	15.48(JAN)	*17.00(NOV) ↓	*18.00(NOV) ↓	1.3868	0.2003	*CHEESE	1.3868	0.2003	1.1865	↓ *PROT 1.1927 ↑
MONTH AGO						15.12	15.67	*BUTTER	2.2343	0.1715	2.0628	↑ *B.FAT 2.4981 ↓
YEAR AGO						14.25	14.11	*NFDM	0.9513	0.1678	0.7835	↑ *N.FAT 0.7757 ↑
						14.25	14.11	*DRYWHEY	0.4805	0.1991	0.2814	↑ *OTHER 0.2898 ↑

CATTLE - DAIRY PURPOSES(\$/HD) NORTHEAST (Avg. Feb. 6, 2019 sale New Holland, PA) *MOST RECENT REPORT													
COWS Fresh				HEIFERS:				BULLS (600-1800 lb)					
Bred	Springing	Open:	300-600 lbs	600-900 lbs	900-1200 lbs	625	750	280	525	N/A	900		
775	N/A	700	600	725	275	450	600	800					
FOUR WEEK RUNNING AV4													
850	875	800	600	725	275	450	600	800					
Avg. of prices reported by USDA Market News for PA & NY Auction Markets Feb. 1-5, 2019													
CULL MARKET COWS (\$/CWT LIVEWEIGHT)													
Premium White	Breakers	Boners	Lean										
N/A	57.00 ↓	53.50 ↓	48.25 ↓										
WEEK AGO													
N/A	60.50	55.75	49.25										
YEAR AGO													
N/A	59.85	59.10	52.25										

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