

## *Risk Management Services*

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DFA Northeast Area Council

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## *Risk Management*

Key Component of a Successful  
Business Plan

Manage a Margin  
Create a Milk Price Safety Net

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### Commodity Prices - Past 36 Months

	Low	High	Difference	% Change
Milk	\$10.83	\$21.38	\$10.55	97%
Corn	\$1.94	\$6.57	\$4.63	238%
Soybean Meal	\$160.80	\$452.00	\$291.20	181%
Crude Oil	\$49.62	\$145.31	\$94.80	193%

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## ***Risk Management Strategies***

- Minimum Milk Price
- Fixed
- Fence Contract
- LGM - Dairy
- Milk & Feed Contract
- Milk Price Stabilizers

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## ***Basis***

- Contracts
  - Class III Price
- Gross Farm Price
  - Class III Price
  - Value of additional components
  - Premiums
  - PPD
- Rule of Thumb: \$1.00

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## ***Minimum Price Contract***

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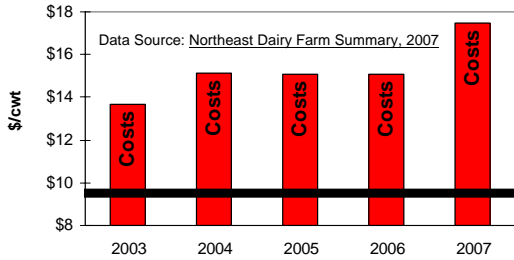
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## USDA Provides A Free Minimum Price – Is It Adequate?

Northeast Cash Operating Expenses vs  
USDA Support Price




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## Minimum Price Contract

- An insurance policy that offers price protection from declining milk prices
  - Sets a 'floor' price
  - Monthly basis
  - Cost involved dependent on futures/options market

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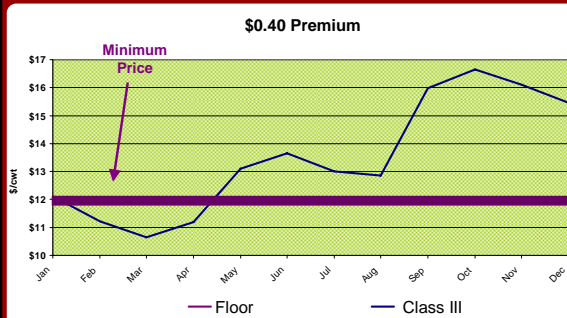
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## \$12.00 Class III Minimum Price




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## *Fixed Price Contract*

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## *Forward Contracts*

- Contracts are for **Class III milk**
- Monthly Contract or Multi-Month Contracts
  - Same price multiple months
  - Can contract for up to 24 months
- Contract Size
- Standing Orders

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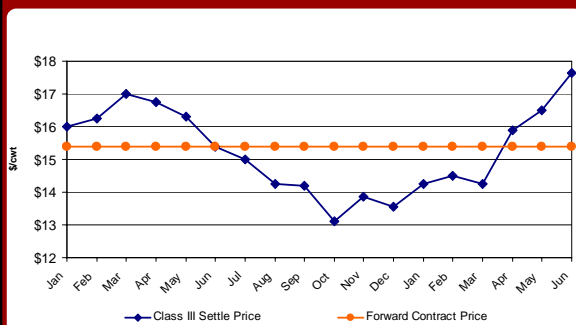
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## *Fixed Price Forward Contract*



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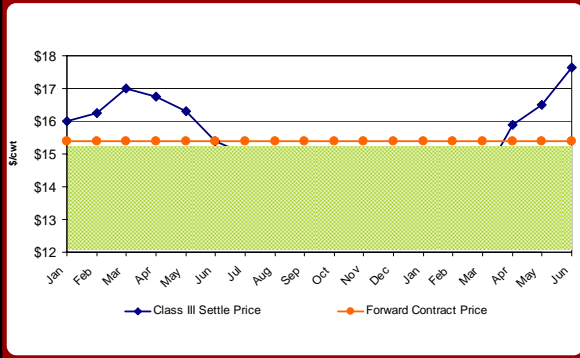
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## Fixed Price Forward Contract




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## Upside Rider

- Protects against the market moving higher
  - Producer chooses level of coverage
  - Monthly basis
  - Cost involved dependent on futures/options market

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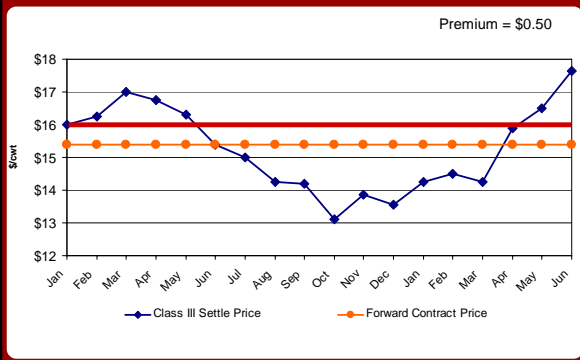
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## Upside Rider




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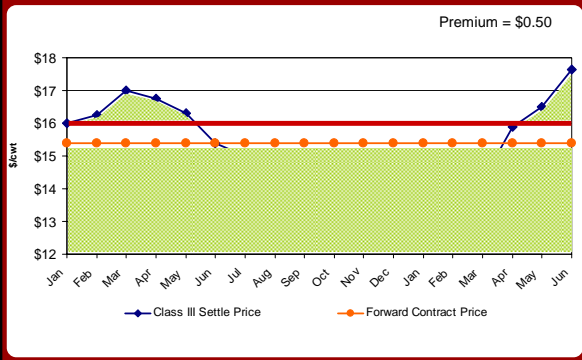
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## Upside Rider



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## Fence Contract

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## Fence Contract

- Minimizes the lows and highs of milk price volatility
  - Members select minimum and maximum price limits
  - Monthly basis
  - Cost involved dependent on futures/options market

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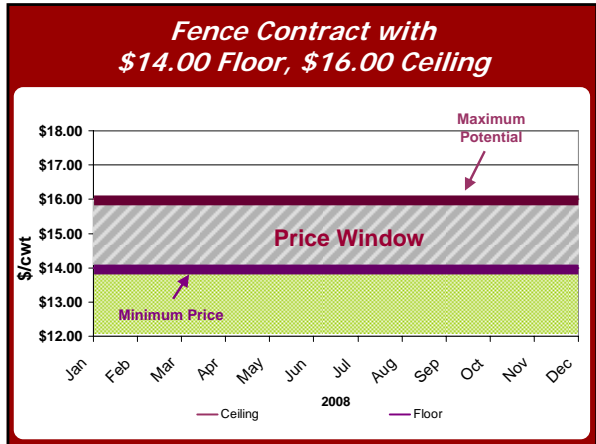
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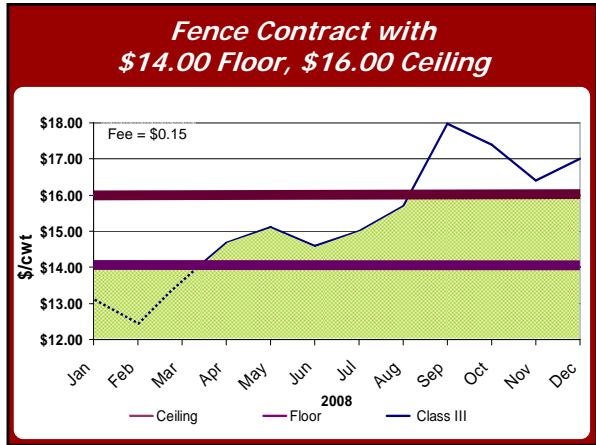
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**LGM – Dairy**

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## Livestock Gross Margin for Dairy

- Insurance program
  - Protects the gross margin between **milk price** and **feed price** - Futures market prices
  - Coverage can be purchased for
    - 1 month
    - Series of months, up to 10 months
  - Offered monthly




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## Cost

- Premiums
  - Determined monthly
    - High price volatility = high premiums
    - Insure more months together – pay lower premiums
- Deductibles
  - Increase deductible – decrease premium
  - Range from \$0 to \$1.50/cwt in \$0.10 increments

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		Jan	Feb	Mar	Total
<b>Milk</b>	Amount (cwt)	2,000	2,000	2,000	
	Expected Price	\$14.30	\$14.28	\$14.31	
	Basis	\$2.32	\$2.11	\$2.32	
	Expected Price w/ Basis	\$16.62	\$16.39	\$16.63	
<b>Expected Revenue</b>		<b>\$33,240</b>	<b>\$32,780</b>	<b>\$33,250</b>	<b>\$99,270</b>
<b>Corn</b>	Amount (bu)	893	893	893	
	Expected corn price(bu.)	\$4.05	\$4.10	\$4.16	
	Basis	\$0.29	\$0.29	\$0.32	
	Expected Price w/ Basis	\$4.34	\$4.39	\$4.48	
<b>Expected Corn Cost</b>		<b>\$3,872</b>	<b>\$3,924</b>	<b>\$4,002</b>	<b>\$11,798</b>
<b>Soybean</b>	Amount (tons)	7.5	7.5	7.5	
<b>Meal</b>	Expected Price	\$277	\$278	\$280	
	Basis	\$0.00	\$0.00	\$0.00	
	Expected Soybean Cost	\$2,076	\$2,088	\$2,099	\$6,263
<b>Expected Feed Cost</b>		<b>\$5,948</b>	<b>\$6,012</b>	<b>\$6,102</b>	<b>\$18,062</b>
<b>Expected gross</b>		<b>\$27,292</b>	<b>\$26,768</b>	<b>\$27,148</b>	<b>\$81,208</b>
		<b>Deductible (\$/cwt)</b>		<b>\$0.00</b>	
		<b>Total Deductible (\$)</b>		<b>\$0</b>	
		<b>Gross Margin Guarantee (\$):</b>		<b>\$81,208</b>	
		<b>Gross Margin Guarantee (\$/cwt):</b>		<b>\$13.53</b>	
		<b>Premium (\$):</b>		<b>\$4,216</b>	
		<b>Premium (\$/cwt):</b>		<b>\$0.70</b>	

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***Risk Management***

An Essential Tool for  
*any* Business in  
*any* Industry

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***Questions?***

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