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2021 DAIRY FINANCIAL & RISK MANAGEMENT CONFERENCE



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WELCOME AND HOUSEKEEPING

Zach Myers,
Dairy Risk Education Manager

2021 DAIRY FINANCIAL & RISK MANAGEMENT CONFERENCE

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Remarks from Pennsylvania
Department of Agriculture
Russell Redding, Secretary



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What I Will Cover

- ❑ Dairy Margin Coverage (DMC)
 - National and state utilization
- ❑ Dairy Revenue Protection (DRP)
 - National and state utilization

2021 DMC U.S.

- ❑ DMC Margin = U.S. All-Milk Price \$/cwt – (Corn \$/cwt + SBM \$/cwt + Alfalfa Hay \$/cwt)
- ❑ 18,992 dairies enrolled (51% of total dairies)
- ❑ 164.8 billion pounds of production history (PH) enrolled
- ❑ \$669.7 million in payments made as of August 30
- ❑ \$35,264 per dairy enrolled in DMC

2021 DMC PA

- ❑ 2,596 dairies enrolled (42%)
- ❑ 5.07 billion pounds PH enrolled
- ❑ \$48.9 million paid out
- ❑ \$28,983 per dairy enrolled in DMC

2021 DMC U.S.

□ Upcoming changes

- Alfalfa hay price changed to high-quality price
 - Retroactive to January 2020 and will continue through the rest of the 2018 Farm Bill cycle
- Update Production History
 - Current Production History (PH) is based off 2014 Farm Bill rules
 - Greater production of 2011, 2012, or 2013
 - If expanded since 2014, can update production history based on 2019 actual production not to exceed the 5-million-pound Tier 1 production cap
 - DMC payment will be the full payment on original production history plus 75% of supplemental production history
 - Retroactive to January 2021 and will continue through the rest of the 2018 Farm Bill cycle
- When does it start???

2021 DMC Margins through July

	Feed costs			Total feed costs*	Milk price	Margin above feed costs
	Alfalfa hay	Corn	Soybean meal			
	(\$/ton)	(\$/bushel)	(\$/ton)	(\$/cwt)	(\$/cwt)	(\$/cwt)
2021						
July	216.50	6.12	365.23	12.22	17.90	5.68
June	214.50	6.00	378.18	12.16	18.40	6.24
May	210.00	5.91	421.03	12.31	19.20	6.89
April	199.00	5.31	413.36	11.46	18.40	6.94
March	195.50	4.89	410.02	10.94	17.40	6.46
February	193.00	4.75	427.28	10.88	17.10	6.22
January	188.50	4.24	439.24	10.36	17.50	7.14

2021 DMC benefit per 1M pounds PH at 95%, \$9.50/cwt Coverage

- Premium cost: 15 cents/cwt for maximum \$9.50/cwt margin
- \$1,525 per 1M# PH

	Expected margin, \$/cwt	Margin difference, \$/cwt	Expected monthly payment	Expected Payment after Sequestration
January	\$7.14	\$2.36	\$1,868.33	\$1,761.84
February	\$6.22	\$3.28	\$2,596.67	\$2,448.66
March	\$6.46	\$3.04	\$2,406.67	\$2,269.49
April	\$6.94	\$2.56	\$2,026.67	\$1,911.15
May	\$6.89	\$2.61	\$2,066.25	\$1,948.47
June	\$6.24	\$3.26	\$2,580.83	\$2,433.73
July	\$5.68	\$3.82	\$3,024.17	\$2,851.79
August				
September				
October				
November				
December				
2020 Total payment			\$16,569.58	\$15,625.12
2020 Net total payment			\$15,044.58	

2021 DMC Benefit through July

- Net Benefit = net payment after premiums and sequestration fee (5.7%) are paid

Net Benefit for the year	
Total Benefit for the year	\$1.74
Benefit after sequestration	\$1.64
Net Benefit after Premium	\$1.49
Net Benefit for 1 M lbs PH at \$9.50	\$16,447.49
Net Benefit for 5 M lbs PH at \$9.50	\$82,237.46

2021 DMC Projections

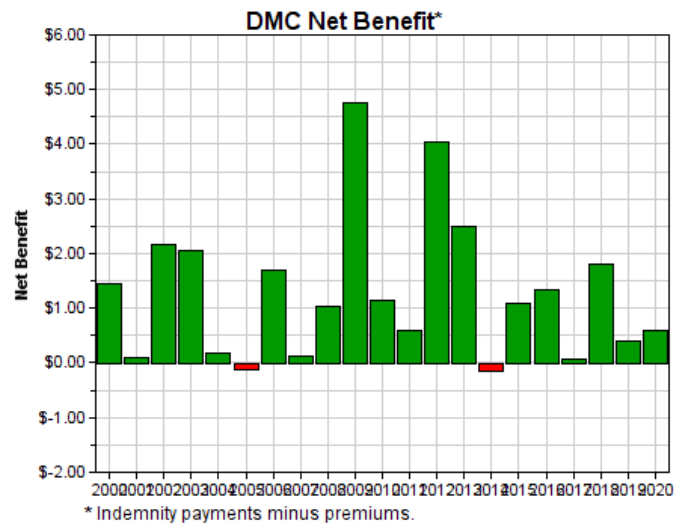
DMC Tier 1 Coverage Analysis

Forecast year:

	Forecast Feed Cost*	Coverage Level	Local Basis	Milk Price Trigger
Jan	\$10.36 +	\$9.50 +	\$0.00 =	\$19.86
Feb	\$10.88 +	\$9.50 +	\$0.00 =	\$20.38
Mar	\$10.94 +	\$9.50 +	\$0.00 =	\$20.44
Apr	\$11.46 +	\$9.50 +	\$0.00 =	\$20.96
May	\$12.31 +	\$9.50 +	\$0.00 =	\$21.81
Jun	\$12.16 +	\$9.50 +	\$0.00 =	\$21.66
Jul	\$12.22 +	\$9.50 +	\$0.00 =	\$21.72
Aug	\$12.10 +	\$9.50 +	\$0.00 =	\$21.60
Sep	\$11.69 +	\$9.50 +	\$0.00 =	\$21.19
Oct	\$11.26 +	\$9.50 +	\$0.00 =	\$20.76
Nov	\$11.03 +	\$9.50 +	\$0.00 =	\$20.53
Dec	\$10.91 +	\$9.50 +	\$0.00 =	\$20.41

* Feed Cost were estimated based on futures market values as of 9/7/21

Why should you/your clients enroll in DMC?



- ❑ DMC was designed for dairies with 200 – 250 cows
 - Tier 1, 5 million pounds PH max
- ❑ If DMC would have been available since 2000, only two years would not have returned a net benefit (2005 & 2014)
- ❑ At 15 cents/cwt, the \$9.50/cwt margin coverage is a relatively inexpensive way to set a U.S. all-milk price floor without giving up the topside of the market
 - 2019 Price Floor = \$18.49/cwt
 - 2020 Price Floor = \$18.17/cwt
 - 2021 Price Floor, so far = \$20.97/cwt, \$20.90/cwt projected for rest of year
 - 2022 Price Floor, projected = \$20.27/cwt
- ❑ Regardless of dairy size, cover up to at least 5 million pounds of PH in DMC

2022 DMC Enrollment



2021 DRP U.S.

- ❑ 52.4 million pounds covered
- ❑ 2,959 policies sold
- ❑ Total premium value = \$398.6 million
- ❑ Premium subsidy = \$175.3 million (44%)
- ❑ Premium paid by producer = \$222.3 million
- ❑ 803 policies indemnified (all at the 95% protected price)
- ❑ \$12.7 million in indemnities paid out

2021 DRP PA

- ❑ 838.2 million pounds covered
- ❑ 163 policies sold
- ❑ Total premium value = \$6.13 million
- ❑ Premium subsidy = \$2.70 million (44%)
- ❑ Premium paid by producer = \$3.43 million
- ❑ 55 policies indemnified (all at the 95% protected price)
- ❑ \$332,085 in indemnities paid out

2022 DRP U.S.

- ❑ 5.61 billion pounds covered
- ❑ 501 policies sold
- ❑ Total premium value = \$40.0 million
- ❑ Premium subsidy = \$17.71 million (44%)
- ❑ Premium paid by producer = \$22.29 million

2022 DRP PA

- ❑ 32.0 million pounds covered
- ❑ 14 policies sold
- ❑ Total premium value = \$263,229
- ❑ Premium subsidy = \$115,823 (44%)
- ❑ Premium paid by producer = \$147,406

Why should you/your clients participate in DRP?

- ❑ Very similar to “put” option on CME but with subsidized premium
- ❑ Highly customizable to individual operations
- ❑ Sets a price floor without giving up the topside of the market
- ❑ Can be used with DMC and cover the same production
 - Good option for smaller farms the DMC does not adequately protect cost of production
 - Good option for larger operations with more than 5 million pounds of PH

Thank You!

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