

A RISK MANAGEMENT

CASE STUDY

Dairy Margin Coverage

2022



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Dairy EXCELLENCE

- During the enrollment period for 2022 DMC, milk price projections were showing significant improvement over 2021.
- Feed costs, although historically high, were expected to be offset by better milk prices through 2022.
- Early 2022 DMC projections showed no indemnities expected during 2022 with a near 0% probability of providing a net benefit to those enrolled in DMC.
- Sunny Day decided not to enroll in DMC for 2022 based on projections during the enrollment period.



- Unfortunately, markets through September 2022 did not behave as expected.
- Drought conditions in the U.S. and international factors such as the conflict between Russia and Ukraine caused feed and fertilizer prices to skyrocket.
- Softer than expected demand and logistic issues caused milk prices to be suppressed relative to early projections.
- These factors were a large part of the reason that caused the DMC margins to be lower than expected, triggering indemnities in August and September that more than covered DMC premiums.
- As of November 18, 2022, additional indemnities are projected for October, November, and December 2022.
- The net benefit from DMC during 2022 is not as great as in previous years. However, as a result of not being enrolled in DMC during 2022, Sunny lost some monetary opportunity by not enrolling in DMC.
- Sunny Day has an established production history of 4,675,000



Sunny Day Dairy				
Administration fee			\$100	
Production history (pounds)			4,675,000	
Margin covered (\$ per cwt)			\$9.50	
Percentage covered (%)			95%	
Total volume covered (pounds)			4,441,250	
Premium (\$ per cwt)			0.150	
Total premium (\$)			\$6,761.88	
	Actual DMC Mmargin, \$/cwt	Indemnity Rate, \$/cwt	Expected monthly payment	Expected Payment after Sequestration
January	\$11.54			
February	\$10.98			
March	\$11.55			
April	\$12.29			
May	\$12.51			
June	\$11.92			
July	\$9.92			
August	\$8.08	\$1.42	\$5,255.48	\$4,955.92
September	\$8.62	\$0.88	\$3,256.92	\$3,071.27
October				
November				
December				
2022 Total payment			\$8,512.40	\$8,027.19

Actual DMC Margins/Indemnities as of November 18, 2022

Guaranteed 2022 DMC Net Benefit	
Total Benefit for the year	\$0.19
Benefit after sequestration	\$0.18
Net Benefit after Premium	\$0.03
Net Benefit	\$1,265.31

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September	\$8.62	\$0.88	\$3,256.92	\$3,071.27
October	\$9.02	\$0.48	\$1,776.50	\$1,675.24
November	\$8.94	\$0.56	\$2,072.58	\$1,954.45
December	\$9.11	\$0.39	\$1,443.41	\$1,361.13
2022 Total payment			\$13,804.89	\$13,018.01

Projected DMC Margins/Indemnities as of November 18, 2022

Theoretical 2022 DMC Net Benefit	
Total Benefit for the year	\$0.31
Benefit after sequestration	\$0.29
Net Benefit after Premium	\$0.14
Net Benefit	\$6,256.13

