

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — MARCH 16, 2022 — except where noted



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



Last Push for DMC 2022: The deadline for 2022 Dairy Margin Coverage (DMC) and Supplemental DMC is by the end of business on Friday, March 25, 2022 at your local Farm Service Agency (FSA) office. By the time this reaches your mailbox, the deadline will be less than a week away.

I was informed by the Pennsylvania state FSA office that the USDA would not be reporting national or state enrollment numbers until after the deadline. However, applications coming into the office for processing are significantly lower than last year.

I know milk price looks the best that it has in nearly a decade, but that does not mean you should abandon risk management. There is a lot of volatility in milk and feed commodity markets right now. Compared to other milk price risk management options, DMC currently sets the highest milk price floor for the premium cost without giving up the top side of the market at least for up to the Tier 1, 5-million-pound production history cap. It is definitely worth considering enrollment before the option is no longer available.

Supplemental DMC (SDMC) allows dairy farmers who have expanded since 2014 the option to increase their production history. SDMC production history is calculated by subtracting 2019 actual milk production from current production history and multiplying that by 75%. For example, if a dairy farm's 2019 production has doubled to 2 million pounds, the dairy's new production history with SDMC would be (2 million - 1 million) * 0.75 + 1 million (current production history) = 1.75 million pounds. That is 750,000 pounds more than previously allowed.

There are three components to the DMC margin calculation. The feed cost part of the margin includes the corn, soybean meal (SBM), and premium alfalfa hay prices with the milk price part equal to the U.S. all-milk price. Therefore, the DMC margin is equal to the U.S. all-milk price minus the total DMC feed cost. Although the corn price was down slightly at market close on March 14, the general trend is for corn to continue to

increase through the summer with perhaps some lower prices going into the fall and winter but remaining historically high.

Based on March 14 closing prices, corn is expected to average \$7.03 per bushel this year. SBM is expected to continue increasing as well. SBM is expected to average \$463.64 per ton as of March 14. Alfalfa hay is not traded on the Chicago Mercantile Exchange (CME) but is expected to be more expensive than 2021. It was \$262 in January.

The U.S. all-milk price is also not something that is traded on the CME. If you take the average corn and SBM price and assume alfalfa hay will remain at \$262 per ton, the DMC feed price will average \$14.54 per cwt in 2022. At the maximum \$9.50 margin coverage, DMC sets an all-milk price floor of \$24.04 per cwt (\$14.54 + \$9.50) for 15 cents per cwt. The U.S. all-milk price is projected to average \$25.05 per cwt according to the March USDA World Agriculture Supply and Demand Estimates report. This means that if any combination of rising feed costs or falling milk price occurs that equates to a margin decrease of more than \$1.01 per cwt, DMC will begin triggering indemnities.

I would like you to consider three questions prior to the March 25 deadline.

1. How confident are you that the U.S. all-milk price will continue to increase and not drop more than \$1 on average through 2022?
2. Will feed prices continue to increase?
3. What will upset you more: spending 15 cents per cwt unnecessarily or the milk price crashing unexpectedly? The record U.S. all-milk price is \$23.98 per cwt set in 2014. Based on current market conditions, DMC 2022 provides a milk price floor higher than the record milk price. Risk management is insurance to protect you against the unforeseen. No one buys fire insurance hoping their barn burns down.

CME DAILY FUTURES & OPTIONS TRADING — MARCH 16, 2022 AT THE CLOSE

	MAR-22	APR-22	MAY-22	JUN-22	JUL-22	AUG-22	SEP-22	OCT-22	NOV-22	DEC-22	JAN-23	FEB-23	TREND	
CLASS III MILK FUTURES (\$/CWT) vs. wk ago: <i>current month down \$0.15, Apr-Jul \$0.50-1.50 lower, Aug-Feb \$0.35-0.70 higher</i>	22.38	22.88	23.33	23.70	23.70	23.69	23.65	23.30	22.87	22.33	21.60	21.00	12-Month Avg 22.87 ↑↑	
CLASS IV MILK FUTURES (\$/CWT) vs. wk ago: <i>Apr-Jun steady to \$0.30 lower, rest of board \$0.20-0.70 higher</i>	24.80	24.86	24.95	24.97	24.80	24.75	24.70	24.25	23.96	23.25	22.55	21.85	12-Month Avg 24.14 ↑↑	
HIGHEST & LOWEST DAILY SETTLE PRICE FOR CL. III CONTRACTS OVER LIFE OF CONTRACT & MONTH/DATE OF OCCURRENCE	22.54 03/22	24.26 03/22	24.25 03/22	24.20 03/22	23.85 03/22	23.69 03/22	23.65 03/22	23.30 03/22	22.87 03/22	22.33 03/22	21.60 03/22	21.00 03/22		
MARGIN = Milk Price over Feed Cost per cwt. YELLOW = payment triggered	11.03 04/20	11.20 04/20	11.12 04/20	11.20 05/20	11.20 04/20	11.12 05/20	11.20 05/20	11.12 04/20	11.31 04/20	11.20 05/20	11.20 05/20	11.20 05/20		
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	22.50 0.15	23.25 0.76	23.50 1.26	23.75 1.40	23.75 1.56	23.75 1.67	23.75 1.82	23.25 1.80	22.75 1.75	22.25 1.75	21.50 1.68	21.00 1.71		
MILK BASIS (\$/CWT) — PA BASIS & 2016-19 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)	PA 1.53	2.29	1.82	1.58	0.99	1.03	0.95	0.79	0.60	0.79	1.17	0.62		
AVG 2.55 2.15 1.66 1.45 1.25 1.31 1.15 0.67 0.74 1.38 0.85 1.67														
DMC OFFICIAL GROSS MARGINS per cwt. (USDA All-Milk, com/alfalfa & Ill. soybean, feed for all classes of dairy cattle on the farm) Updated with NEW prem. alfalfa feed cost														
DMC NOV-20 DEC-20 JAN-21 FEB-21 MAR-21 APR-21 MAY-21 JUN-21 JUL-21 AUG-21 SEP-21 OCT-21 NOV-21 DEC-21 *JAN-22	11.64	8.54	6.90	5.97	6.26	6.77	6.67	6.03	5.47	5.03	6.69	8.54	9.14	9.53 *11.54 ↑↑

	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	JUL-21	AUG-21	SEP-21	OCT-21	NOV-21	*DEC-21	*JAN-22
U.S. AVG MILK MARGIN per 100 lbs milk based on 75-lb herd avg & USDA's All-Milk price, USDA-reported com & alfalfa hay & Ill. soybean prices (lactating feed only)	14.44	15.47	12.51	11.25	10.51	10.66	11.31	11.53	10.77	10.19	9.79	10.94	12.46	14.11	*13.55	*15.65 ↑↑
PA AVG MILK MARGIN per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA com & alfalfa hay & Buff., NY soybean prices (lactating feed only)	10.91	11.31	12.36	10.53	8.56	8.15	9.24	9.37	9.76	10.20	10.04	11.07	12.26	12.78	*14.70	*16.98 ↑↑

	MAY-22	JUL-22	SEP-22	DEC-22	MAR-23	MAY-23	JUL-23	SEP-23	DEC-23	MAR-24	MAY-24	JUL-24	TREND
CORN FUTURES (\$/BU)	7.300	6.970	6.470	6.296	6.304	6.310	6.290	5.764	5.636	5.696	5.710	5.722	↓↓
WEEK AGO	7.330	7.082	6.620	6.366	6.340	6.314	6.284	5.842	5.736	5.794	5.790	5.789	

	MAY-22	JUL-22	AUG-22	SEP-22	OCT-22	DEC-22	JAN-23	MAR-23	MAY-23	JUL-23	AUG-23	SEP-23	TREND
SOYMEAL FUTURES (\$/TON)	478.0	465.7	451.8	438.6	427.0	424.2	416.2	397.9	389.3	385.3	378.0	369.4	↓↓
WEEK AGO	495.0	474.7	462.3	449.8	438.7	426.0	422.4	413.6	394.3	384.8	379.5	372.1	

	FEED COST (\$/CWT milk)	IOFC (\$/COW @ 75 lbs milk)	PA MILK MARGIN (\$/CWT milk)
*NEW PA MILK MARGIN & IOFC—LATEST PSU VALUES — *JAN. 2022			
*JAN (estimated)	*7.94 ↓↓	*12.74 ↑↑	*16.98 ↑↑
PREV MO	8.01	11.03	14.70
YR AGO	8.74	6.42	8.56

	MAR	APR	MAY	JUN	JUL	AUG	SEP	SPOT CASH	TREND
CME DAIRY CASH-SETTLED FUTURES (\$/LB) 03/16/22									
NFDM	1.804	1.829	1.852	1.865	1.866	1.856	1.840	↑↑	1.8450 NC
WHEY	0.791	0.757	0.732	0.717	0.700	0.690	0.682	↓↓	0.7600 ↑↑
BUTTER	2.695	2.677	2.640	2.635	2.621	2.600	2.596	↓↓	2.7350 ↓↓
CHEESE	2.042	2.127	2.203	2.240	2.248	2.252	2.258	Mixed	See Below
CME SPOT CHEESE: BARRELS	1.9800 / 40 LB BLOCKS							2.0500	↓↓ / ↓↓

	CL I ADV	CL II	CL III	CL IV	ALL-MILK-U.S.	ALL-MILK-PA
*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						
CL I ADV	22.88 (MAR)	23.79 (FEB)	20.91 (FEB)	24.00 (FEB)	42.20 (JAN) ↑↑	24.80 (JAN) ↑↑
CL II					4.21F	4.13F
CL III						
CL IV						
MONTH AGO	21.64	22.83	20.38	23.09	21.80	22.30
YEAR AGO	15.20	14.00	15.75	13.19	17.50	17.30

	WEIGHTED AVG. 4-WK	FEB. 1-26, 2022	FEB. 2022 COMPONENTS
PRODUCT VALUE MAKE ALLOW NET			
CHEESE	1.9068	0.2003	1.7065 ↑↑
BUTTER	2.6668	0.1715	2.4953 ↑↑
NFDM	1.7284	0.1678	1.5606 ↑↑
DRYWHEY	0.7800	0.1991	0.5809 ↑↑
B.FAT			3.0218 ↑↑
N.FAT			1.5450 ↑↑
OTHER			0.5983 ↑↑

	COWS:	Bred	Springing	HEIFERS:	Bred	Springing	Beef x	Open:	300-600 lbs	Beef X	600-900 lbs	Beef X	900-1100 lbs	BULLS (1000+ lbs)
CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. March 9, 2022 sale New Holland, PA)														
COWS:	1260	1000	1450	1150	1280	1000			500	400	780	N/A	1100	1000 LTD
MONTH AGO COMPARISON														
YEAR AGO	1150	1135	1300	1175	1175	N/A			N/A	N/A	1050 LTD		1200 LTD	1075 LTD

Price averages do not include lower-end common

	Premium White	Breakers	Boners	Lean
CULL MARKET COWS (\$/CWT LIVELWEIGHT)				
WEEK AGO	85.25 ↓↓	79.60 ↓↓	68.35 ↓↓	
YEAR AGO	N/A	91.35	81.60	69.85
WEEK AGO	N/A	60.50	57.60	48.50

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