

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — MAR. 22, 2023 — except where noted



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



What is Risk Management? As the risk education manager at the Center for Dairy Excellence, it is a main responsibility of mine to not only understand the available risk management opportunities, but also to be able to explain them to dairy farmers to help them determine what strategies will work best for their operations. I thought this week would be a good week to write about what risk management is as I am sitting at a hotel room desk in Harrisonburg, Virginia in between meetings where I was asked to talk to two different groups of Virginia dairy farmers about risk management.

When I think about risk management, I like to put the types of risk dairy farmers are exposed to in four subgroups: strategic risk, operational risk, compliance or regulatory risk, and financial risk. Strategic risks are those that you are exposed to that have long-term consequences. A prime example of strategic risk is a current hot topic. The COVID-19 pandemic exposed some issues with the Federal Milk Marketing Order (FMMO) system that cost dairy farmers a lot of financial opportunity. The last major FMMO reforms were made nearly 25 years ago in 2000. Another example may be a housing development being built adjacent to your operation. This certainly could have long-term implications on your ability to operate in the future. These types of risk are difficult to manage because they are rather unpredictable and, in many cases, not controllable.

Operational risks are those that affect your ability to operate on an immediate or short-term basis. I asked the group of dairy farmers today what they would do if they were at home eating lunch, and they saw a cow walk through their yard. Would they finish lunch? My guess is no. They would go take care of that immediate issue.

That is a simple example, but it certainly makes a point. I remember one time when my boys were much younger, and we were still on the dairy in North Carolina. Robert, my younger

son, ran out of his room one evening to tell me there were 10 cows looking into his bedroom window. I did not waste any time. I told them to get their boots on and help me get them put back where they belong. It ended up being nearly an entire group of 140 cows that had gotten out through a free stall gate that was left open. Some of these types of risk are more easily addressed by double checking to make sure the chain is latched correctly, or maybe keeping a spare receiver jar motor, pump, and seal kit on hand for when you have receiver jar milk pump issues.

It is easy to understand what compliance and regulatory risks are because you deal with them on a daily basis maintaining Grade A status, hauling manure, or maintaining your Farmers Assuring Responsible Management (FARM) program records. You can avoid exposure to these risks by keeping a clean facility conducive to maintaining a healthy herd of cows, following your comprehensive nutrient management plan, and making sure you follow FARM guidelines as closely as possible.

The last type of risk, financial, is probably what you are more accustomed to hearing about. This risk involves things like milk price, feed costs, and the increasing interest rates that we have experienced over the last several months. 2022, overall, was a really good financial year for most dairies across the country which means 2023 is not likely to be as good. Feed costs are remaining historically high, and the futures market is showing Class III and IV milk prices that are, on average, \$2.73 and \$5.33 per cwt, respectively, less than 2022. Margins will certainly be tested this year.

If you would like help understanding what milk price risk management tools exist to help you mitigate your financial risk, do not hesitate to reach out to me via email or telephone. That information is included under my photo above. I would be happy to help you get started on a risk management plan.

*AVG = Average basis for North-East and Mid-East
*MARGIN = Milk Price over Feed Cost per cwt. YELLOW = payment triggered

CME DAILY FUTURES & OPTIONS TRADING — MAR. 22, 2023 AT THE CLOSE

MAR-23	APR-23	MAY-23	JUN-23	JUL-23	AUG-23	SEP-23	OCT-23	NOV-23	DEC-23	JAN-24	FEB-24	TREND
CLASS III MILK FUTURES (\$/CWT) vs. week ago: Mar and May up \$0.10-0.30, Apr up 0.75, Jun-Dec dn \$0.05-0.20, Jan-Feb24 firm to \$0.20 higher.												12-Month Avg. 18.99↑↑
18.04	19.36	18.37	18.60	18.83	19.03	19.57	19.57	19.46	19.19	18.95	18.95	MIXED
CLASS IV MILK FUTURES (\$/CWT) vs. week ago: Mar-Apr steady to \$0.10 higher, May-Dec23 down \$0.30-0.40, Jan-Feb24 firm.												12-Month Avg. 18.93↓↓
18.41	18.04	17.98	18.37	18.55	18.95	19.23	19.55	19.70	19.65	19.50	19.21	↓↓
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium 18.00 0.04 19.25 0.33 18.75 0.70 18.50 0.72 18.75 0.85 19.25 0.97 19.50 1.06 19.50 1.08 19.50 1.19 19.25 1.24 19.00 1.22 19.00 1.24												
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 farm) Updated with NEW prem. alfalfa feed cost DMC NOV-21 DEC-21 JAN-22 FEB-22 MAR-22 APR-22 MAY-22 JUN-22 JUL-22 AUG-22 SEP-22 OCT-22 NOV-22 DEC-22 *JAN-23 9.14 9.53 11.54 10.98 11.55 12.29 12.51 11.92 9.92 8.08 8.62 10.71 10.89 9.76 *7.94 ↓↓												

NOV-21	DEC-21	JAN-22	FEB-22	MAR-22	APR-22	MAY-22	JUN-22	JUL-22	AUG-22	SEP-22	OCT-22	NOV-22	DEC-22	JAN-23	*FEB-23
262.84	242.90	270.34	253.80	278.02	280.00	322.00	321.17	312.50	308.17	290.70	300.10	289.50	296.50	266.60	*297.25 ↑↑
U.S. AVG. BRED COWS & HEIFERS (3rd trimester) per head as reported by USDA Monthly National Dairy Comprehensive Report 1062 1152 1151 1237 1253 1390 1278 1184 1350 1407 1265 1310 1290 1300 1250 *1352 ↑↑															

MAY-23	JUL-23	SEP-23	DEC-23	MAR-24	MAY-24	JUL-24	SEP-24	DEC-24	MAR-25	MAY-25	JUL-25	TREND
6.334	6.116	5.660	5.544	5.632	5.684	5.704	5.456	5.360	5.432	5.450	5.456	MIXED
WEEK AGO 6.264 6.122 5.660 5.570 5.654 5.706 5.724 5.460 5.356 5.424 5.442 5.444												

MAY-23	JUL-23	AUG-23	SEP-23	OCT-23	DEC-23	JAN-24	MAR-24	MAY-24	JUL-24	AUG-24	SEP-24	TREND
451.6	446.9	435.6	420.8	409.3	406.2	400.7	390.4	384.4	382.5	378.7	374.0	↓↓
WEEK AGO 478.4 469.6 455.8 438.6 424.6 421.7 415.9 404.4 398.3 396.3 392.2 386.6												

FEED COST	IOFC (\$/COW)	PA MILK MARGIN @ 75 lbs milk (\$/CWT milk)
*JAN (estimated)	*9.61↑↑	*10.71↓↓
*PREV MO	9.45	12.04
*YR AGO	8.42	12.28

MAR	APR	MAY	JUN	JUL	AUG	SEP	SPOT CASH TEND
1.197	1.170	1.165	1.190	1.212	1.240	1.270	03/22/23
0.422	0.417	0.394	0.377	0.397	0.397	0.403	0.4475↑↑
2.420	2.365	2.380	2.410	2.430	2.452	2.467	2.3825↑↑
1.837	1.976	1.923	1.925	1.941	1.999	2.005	See Below

CL I ADV	CL II	CL III	CL IV	ALL-MILK-U.S.	ALL-MILK-PA
*18.85(APR)	20.83(FEB)	17.78(FEB)	18.86(FEB)	23.10(JAN) 4.23F	23.90(JAN) 4.14F
18.99	21.61	19.43	20.01	24.70 4.27F	25.50 4.18F
24.38	23.79	20.91	24.00	24.20 4.21F	24.80 4.13F

PRODUCT	VALUE	MAKE ALLOW	NET	FEB 2023 COMPONENTS
CHEESE	1.8224	0.2003	1.6221	PROT 2.3650 ↓↓
BUTTER	2.4158	0.1715	2.2443	B.FAT 2.7178 ↓↓
NFDM	1.2553	0.1678	1.0875	N.FAT 1.0766 ↓↓
DRYWHEY	0.4031	0.1991	0.2040	OTHER 0.2101 ↓↓

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. Mar. 15, 2023 sale New Holland, PA)
COWS: Fresh Bred Springing *HEIFERS: Bred Springing Beefx Open: 300-600 lbs Beef X 600-900 lbs Beef X 900-1100 lbs BULLS(900+ lbs)
1560 1300 1450 1375 1510 1125 LTD 650 N/A 950 N/A 950 N/A
1500 N/A 1615 LTD 1375 1500 N/A 525 N/A 725 N/A 1150 N/A