

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUESDAY, JULY 2, 2019 — except where noted

## Dairy Revenue Protection (DRP):

I have heard and written a lot about Dairy Margin Coverage (DMC) over the last several weeks. I believe it will be a significant improvement over its predecessor, the Margin Protection Program. According to the USDA, over 5,000 dairies enrolled during the first 10 days of the enrollment period.

With all the talk about DMC, do not forget about Dairy Revenue Protection (DRP). The DRP is a quarterly revenue protection insurance program and another great tool in the risk management toolbox.

If you're considering the differences between DMC and DRP, Dairy Margin Coverage was designed to be most cost effective and beneficial for dairies milking about 250 cows or less. Larger dairies can and should participate in Tier 1 margins and premiums on the first 5 million pounds, but it is not cost effective for larger dairies to cover additional production history at the higher Tier 2 premium structure.

Dairy Revenue Protection premium rates are the same whether quarterly production is 100,000 pounds or 5 million pounds. It can be used by small and large dairies alike and is a more realistic option for large dairies to protect a greater portion of milk production.

When you are managing feed cost risk, do you just try to contract corn price? No, generally the goal is to contract main ration ingredients at or below the desired trigger price for each commodity.

When you manage your milk price risk, you should not rely on just one tool when there are other tools available. Dairy Revenue Protection is a highly customizable way to protect quarterly revenue due to unexpected drops in milk prices. Dairy Revenue Protection is only available through an Approved Insurance Provider (AIP). The Risk Management Agency has an online Agent Locator tool that can be found at: <https://prodwebnlb.rma.usda.gov/apps/AgentLocator/#/>. Some milk cooperatives are AIPs and are now offering DRP through their risk management services.

When choosing an insurance provider, it is important the agent fully understands the DRP program as it can be complex and difficult to understand at first. Having a knowledgeable insurance provider can help ensure you make the right decisions in protecting milk revenue. I am frequently asked if you need to shop around for insurance providers to get the best price. The answer is no. DRP is a government subsidized program. The government sets the premium and is the same across insurance providers.

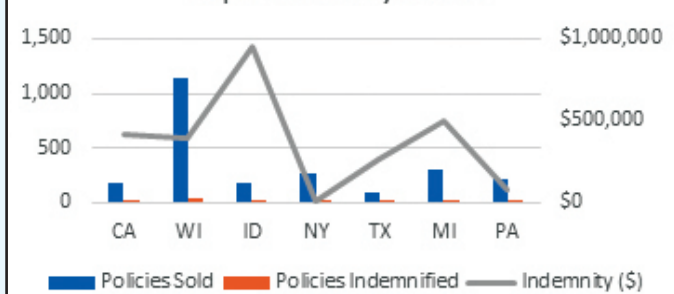


**ZACH MYERS**  
Risk Education  
Manager  
336-468-0726  
zmyers@centerfordairy  
excellence.org



According to the RMA webpage, as of July 1st, 3,905 DRP policies have been sold covering a total of over 30.3 billion pounds of milk. Of those policies, 185 have been indemnified and paid out over \$5.1 million to dairy farmers. From 80 to 95% of quarterly volume can be covered in 0.05% increments. All policies indemnified were at the 95% volume coverage. DRP policies can be purchased up to five quarters in advance. Fourth quarter 2019 to fourth quarter 2020 policies are currently available.

## Top 7 US Dairy States



## CME DAILY FUTURES & OPTIONS TRADING — JULY 2, 2019 AT THE CLOSE



\*AVG = Average basis for North-East and Mid-East

\*MARGIN = Milk Price over Feed Cost

per cwt. YELLOW = payment triggered

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20, TREND

### CLASS III MILK FUTURES (\$/CWT)

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20, TREND

HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20

### MILK BASIS (\$/CWT) — PA BASIS & 2014-16 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)

Table with columns: PA, JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20

### MPP/DMC OFFICIAL GROSS MARGINS per cwt. (USDA All-Milk, com/alfalfa hay & Illinois soybean prices, feed for all classes of dairy cattle on the farm)

Table with columns: JUL-18, AUG-18, SEP-18, OCT-18, NOV-18, DEC-18, JAN-19, FEB-19, MAR-19, APR-19, MAY-19, JUN-19

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)

Table with columns: MAY-18, JUN-18, JUL-18, AUG-18, SEP-18, OCT-18, NOV-18, DEC-18, JAN-19, FEB-19, MAR-19, APR-19, MAY-19

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)

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20

### CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20

### CORN (\$/BU) OPTIONS — CALLS

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, NOV-19, DEC-19, JAN-20, FEB-20, MAR-20, APR-20, MAY-20, JUN-20

### CORN FUTURES (\$/BU)

Table with columns: JUL-19, SEP-19, DEC-19, MAR-20, MAY-20, JUL-20, SEP-20, DEC-20, MAR-21, MAY-21, JUL-21, SEP-21, TREND

### SOYMEAL FUTURES (\$/TON)

Table with columns: JUL-19, AUG-19, SEP-19, OCT-19, DEC-19, JAN-20, MAR-20, MAY-20, JUL-20, AUG-20, SEP-20, OCT-20, TREND

### PA MILK MARGIN & IOFC-LATEST PSU VALUES — \*MAY 2019

Table with columns: FEED COST, IOFC @ 75 lbs milk, PA MILK MARGIN

### CME DAIRY CASH-SETTLED FUTURES (\$/LB) 07/02/19 SPOT CASH TEND

Table with columns: NFDM, WHEY, BUTTER, CHEESE

### ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)

Table with columns: CL I ADV, CL III, CL IIII, CL IV

### CURRENT FEDERAL ORDER VALUES (\$/LB) \*NEW

Table with columns: CHEESE, BUTTER, NFDM, DRYWHEY

### CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. July 3, 2019 sale New Holland, PA) \*MOST RECENT REPORT

Table with columns: COWS, HEIFERS, BULLS

Price averages do not include lower-end common cows and heifers.

Average to high dressing

Price averages do not include lower-end common cows and heifers.

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