

## 2021 Dairy Margin Coverage

The Dairy Margin Coverage (DMC) program, successor to the Margin Protection Program, has been in effect for two years since the 2018 Farm Bill was put into law. The program enables producers to insure income-over-feed cost margins of up to \$9.50/cwt. for the first five million pounds of annual production. Production above five million pounds can be insured up to an \$8.00/cwt. margin. Enrollment for the 2021 DMC program opened on October 12 and will run through Friday, December 11.

### DMC Formula

DMC uses the USDA monthly Agricultural Prices report figures for a bushel of corn, a ton of soybean meal, and a ton of alfalfa hay to calculate the feed cost to produce 100 pounds of milk. This feed cost figure is then subtracted from the all milk price to determine the income over feed cost (IOFC) margin. This IOFC margin is what the program insures. Each coverage level, ranging from \$4.00 to \$9.50, has a premium per cwt. For example, to insure a margin of \$9.50/cwt. after feed costs are paid, a dairy would pay a premium of \$0.15/cwt.

### DMC History

**2019** The December 2018 – January 2019 government shutdown created the perfect opportunity for dairy farmers to utilize DMC. Due to the shutdown, Farm Service Agencies were unable to enroll producers prior to the January

2019 program start date. Enrollment was then pushed back to July through December 2019, but the program payments would be retroactive through all of 2019. This allowed producers to ‘take their chance’ on insuring IOFC after the payment figures were released that showed the program would be profitable. 23,448 operations, 84.3% of dairies, enrolled in DMC in 2019. An estimated \$313.8 million dollars were paid to producers that year representing an average of \$13,384 per operation.

**2020** At the December 2019 DMC enrollment deadline for 2020 coverage, dairy prices for 2020 looked promising, leading to a decline in enrollment. 13,479 dairy operations (51.2% of

Month	Corn (\$/bu)	Blended Alfalfa Hay (\$/ton)	Soybean Meal (\$/ton)	All Milk (\$/cwt)	Final Feed Costs for DMC(\$/cwt)	Milk Margin Above Feed Costs for DMC(\$/cwt)
January	3.79	190.50	300.11	19.60	8.88	10.72
February	3.78	190.50	295.28	18.90	8.84	10.06
March	3.68	190.00	312.38	18.00	8.85	9.15
April	3.29	195.00	295.39	14.40	8.37	6.03
May	3.20	195.00	288.56	13.60	8.23	5.37
June	3.16	190.00	288.66	18.10	8.11	9.99
July	3.21	183.00	291.25	20.50	8.09	12.41
August	3.12	182.00	290.18	18.80	7.97	10.83

The alfalfa price is a blend of premium and supreme alfalfa hay prices. A change that has added \$75 million in payments since Jan. 2019.

Coverage Level	Tier 1 Premium per cwt for covered production history of 5 mil lbs. or less	Tier 2 Premium per cwt, all years for covered production history over 5 mil lbs.
\$4.00	None	None
\$4.50	\$0.0025	\$0.0025
\$5.00	\$0.005	\$0.005
\$5.50	\$0.030	\$0.100
\$6.00	\$0.050	\$0.310
\$6.50	\$0.070	\$0.650
\$7.00	\$0.080	\$1.107
\$7.50	\$0.090	\$1.413
\$8.00	\$0.100	\$1.813
\$8.50	\$0.105	N/A
\$9.00	\$0.110	N/A
\$9.50	\$0.150	N/A

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U.S. dairies) enrolled in DMC for 2020. However, the current year showed that projected dairy prices can be quick to change as unforeseen circumstances arise. COVID-19 threw a wrench in the dairy supply system as retail demand spiked and food service demand plummeted for different products. In March the IOFC margin dipped 35 cents below the \$9.50/cwt. margin. Milk prices then plummeted in April and May, resulting in IOFC margins of \$6.03/cwt. and \$5.37/cwt., the lowest margins of the DMC program. The low margins in March, April, and May will create an estimated \$196.5 million in payments to producers for an average of \$14,579/operation. The September margin is currently projected below the \$9.50 level at \$9.11/cwt.

**Looking Ahead**

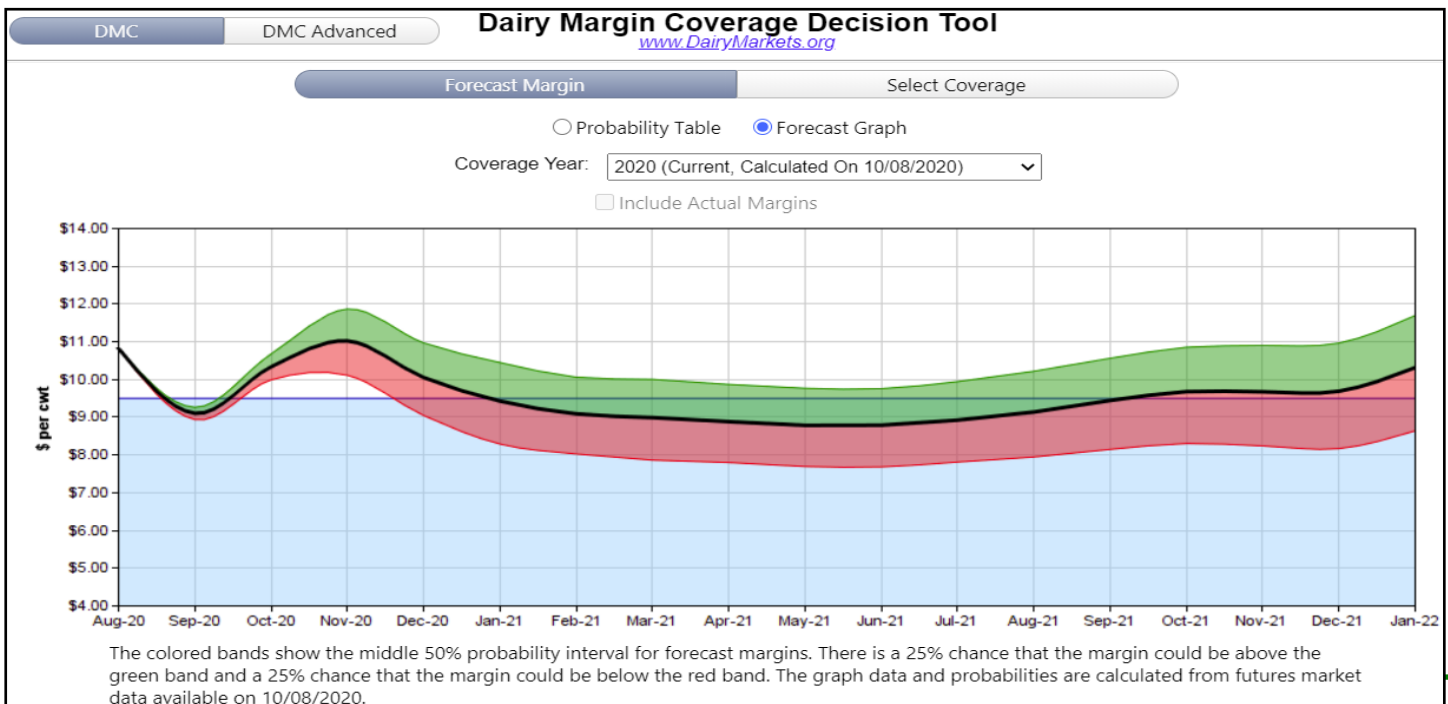
2020 has shown the dairy industry the importance of risk management in any farm business plan. FSA Administrator Richard Fordyce said, “If we’ve learned anything in the past six months, it’s to expect the unexpected. Nobody would have imagined the significant impact that current, unforeseen circumstances have had on an already fragile dairy market. It’s during unprecedented times like these that the importance of offering

agricultural producers support through the delivery of Farm Bill safety-net programs such as DMC becomes indisputably apparent.” The current DMC decision making tool projection shows margins dipping below the \$9.50 level in February – August 2021.

Two other lessons learned from the past two years combined with 2021 projections are:

1. The \$9.50 coverage option provides the best value for the first five million pounds of production. And if DMC margins never drop below \$9.50 during the year, dairy profitability will be so strong that the \$0.15/cwt. premium won’t be missed.
2. The \$4.00 coverage may be free, but it is basically worthless. Dairy profitability has rarely been hit as hard as it was earlier this year, and yet the DMC margin didn’t drop below \$5.37/cwt.

DMC has proven to be an excellent insurance option for a dairy’s first five million pounds of production. Contact your local Farm Service Agency to sign up for 2021 DMC. Enrollment is open now through December 11, 2020.



# NAJ Milk & Component Outlook - 2020 Prices through September

2020 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER		2020 MILK VOLUME (Million #)		2020 AVERAGE JERSEY REGULATED BLEND PRICE	
Northeast (Boston)	\$16.98	Northeast (Boston)	20,093	Northeast (Boston)	\$21.83
Appalachian (Charlotte)	\$18.63	Appalachian (Charlotte)	3,960	Appalachian (Charlotte)	\$20.96
Southeast (Atlanta)	\$18.73	Southeast (Atlanta)	3,529	Southeast (Atlanta)	\$21.66
Florida (Tampa)	\$20.67	Florida (Tampa)	1,864	Florida (Tampa)	\$23.04
Midwest (Cleveland)	\$15.84	Midwest (Cleveland)	14,034	Midwest (Cleveland)	\$19.84
Upper Midwest (Chicago)	\$15.75	Upper Midwest (Chicago)	16,752	Upper Midwest (Chicago)	\$21.11
Central (Kansas City)	\$15.27	Central (Kansas City)	10,481	Central (Kansas City)	\$19.73
California (Los Angeles)	\$14.78	California (Los Angeles)	17,351	California (Los Angeles)	\$16.82
Southwest (Dallas)	\$15.79	Southwest (Dallas)	8,787	Southwest (Dallas)	\$19.46
Arizona (Phoenix)	\$15.62	Arizona (Phoenix)	3,441	Arizona (Phoenix)	\$17.94
<u>Pacific Northwest (Seattle)</u>	<u>\$15.51</u>	<u>Pacific Northwest (Seattle)</u>	<u>5,870</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$19.35</u>
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$16.69</b>	<b>ALL FMMO MARKET TOTAL</b>	<b>106,163</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$20.16</b>

Prices reflect Federal Order minimum blend prices for city shown.

Total Grade A milk volume sold under FMMO.

Prices reflect FMMO minimum prices at Jersey component values.

2020 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS		2020 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE		2020 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE	
Northeast (Boston)	\$22.05	Northeast (Boston)	\$5.10	Northeast (Boston)	29.8%
Appalachian (Charlotte) (includes protein prem.)	\$21.30	Appalachian (Charlotte)	\$2.47	Appalachian (Charlotte)	13.1%
Southeast (Atlanta)	\$21.66	Southeast (Atlanta)	\$2.26	Southeast (Atlanta)	11.7%
Florida (Tampa)	\$23.04	Florida (Tampa)	\$2.43	Florida (Tampa)	11.7%
Midwest (Cleveland) (includes protein premium)	\$20.42	Midwest (Cleveland)	\$4.57	Midwest (Cleveland)	28.7%
Upper Midwest (Chicago) (includes cy premium)	\$21.34	Upper Midwest (Chicago)	\$5.00	Upper Midwest (Chicago)	30.3%
Central (Kansas City)	\$19.73	Central (Kansas City)	\$4.41	Central (Kansas City)	28.6%
California (Los Angeles)	\$16.82	California (Los Angeles)	\$2.13	California (Los Angeles)	14.6%
Southwest (Dallas)	\$19.46	Southwest (Dallas)	\$3.78	Southwest (Dallas)	24.2%
Arizona (Phoenix) (includes protein)	\$18.27	Arizona (Phoenix)	\$2.62	Arizona (Phoenix)	16.7%
<u>Pacific Northwest (Seattle)</u>	<u>\$19.35</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$3.91</u>	<u>Pacific Northwest (Seattle)</u>	<u>25.2%</u>
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$20.31</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$3.52</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>21.3%</b>

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION	2020	REGULATED MILK PRICES	2020	AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2020
Butterfat	5.01	FMMO Milkfat	\$1.7496	FMMO Milkfat Adjustment	\$2.02
TRUE Protein	3.75	FMMO True Protein	\$3.4895	FMMO True Protein Adjustment	\$2.09
Other Solids	5.73	FMMO Other Solids	\$0.1608	FMMO Other Solids Adjustment	(\$0.01)
Solids Not Fat (SNF)	9.48				
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.99				
CME Block Cheese Price	\$1.95				

# NAJ Milk & Component Outlook - September 2020 Jersey Price Comparisons

<u>SEPT'20 STATISTICAL BLEND PRICE</u>		<u>SEPT'20 MONTHLY MILK VOLUME</u> (Million #)		<u>SEPT'20 JERSEY REGULATED BLEND PRICE</u>	
Northeast (Boston)	\$16.80	Northeast (Boston)	2,168	Northeast (Boston)	\$22.85
Appalachian (Charlotte)	\$19.68	Appalachian (Charlotte)	449	Appalachian (Charlotte)	\$21.64
Southeast (Atlanta)	\$19.62	Southeast (Atlanta)	393	Southeast (Atlanta)	\$21.64
Florida (Tampa)	\$21.85	Florida (Tampa)	195	Florida (Tampa)	\$24.00
Mideast (Cleveland)	\$16.16	Mideast (Cleveland)	1,446	Mideast (Cleveland)	\$19.39
Upper Midwest (Chicago)	\$15.97	Upper Midwest (Chicago)	1,064	Upper Midwest (Chicago)	\$21.89
Central (Kansas City)	\$15.71	Central (Kansas City)	870	Central (Kansas City)	\$19.55
California (Los Angeles)	\$14.47	California (Los Angeles)	1,798	California (Los Angeles)	\$16.48
Southwest (Dallas)	\$15.83	Southwest (Dallas)	858	Southwest (Dallas)	\$19.03
Arizona (Phoenix)	\$16.00	Arizona (Phoenix)	266	Arizona (Phoenix)	\$18.20
<u>Pacific Northwest (Seattle)</u>	<u>\$15.19</u>	<u>Pacific Northwest (Seattle)</u>	<u>607</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$18.70</u>
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$17.03</b>	<b>ALL FMMO MARKET TOTAL</b>	<b>10,113</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$20.31</b>

Prices reflect Federal Order minimum blend prices for city shown.

Total Grade A milk volume sold under FMMO during month.

Prices reflect FMMO minimum prices at Jersey component values.

<u>SEPT '20 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS</u>		<u>SEPT'20 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>		<u>SEPT'20 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE</u>	
Northeast (Boston)	\$23.09	Northeast (Boston)	\$6.29	Northeast (Boston)	37.4%
Appalachian (Charlotte) (includes protein prem.)	\$21.99	Appalachian (Charlotte)	\$2.31	Appalachian (Charlotte)	11.8%
Southeast (Atlanta)	\$21.64	Southeast (Atlanta)	\$2.02	Southeast (Atlanta)	10.3%
Florida (Tampa)	\$24.00	Florida (Tampa)	\$2.15	Florida (Tampa)	9.8%
Mideast (Cleveland) (includes protein premium)	\$19.99	Mideast (Cleveland)	\$3.83	Mideast (Cleveland)	23.7%
Upper Midwest (Chicago) (includes cy premium)	\$22.12	Upper Midwest (Chicago)	\$6.15	Upper Midwest (Chicago)	38.5%
Central (Kansas City)	\$19.55	Central (Kansas City)	\$3.84	Central (Kansas City)	24.4%
California (Los Angeles)	\$16.48	California (Los Angeles)	\$2.01	California (Los Angeles)	13.9%
Southwest (Dallas)	\$19.03	Southwest (Dallas)	\$3.20	Southwest (Dallas)	20.2%
Arizona (Phoenix) (includes protein)	\$18.54	Arizona (Phoenix)	\$2.54	Arizona (Phoenix)	15.9%
<u>Pacific Northwest (Seattle)</u>	<u>\$18.70</u>	<u>Pacific Northwest (Seattle)</u>	<u>\$3.51</u>	<u>Pacific Northwest (Seattle)</u>	<u>23.1%</u>
<b>ALL FMMO MARKET AVERAGE</b>	<b>\$20.47</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>\$3.44</b>	<b>ALL FMMO MARKET AVERAGE</b>	<b>20.8%</b>

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

Percent difference in Jersey price with premiums, over the statistical blend price.

<u>ESTIMATED JERSEY MILK COMPOSITION</u>	<u>Sep-20</u>	<u>REGULATED MILK PRICES</u>	<u>Sep-20</u>	<u>AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:</u>	<u>Sep-20</u>
Butterfat	5.00	FMMO Milkfat	\$ 1.5932	FMMO Milkfat Adjustment	\$1.84
TRUE Protein	3.78	FMMO True Protein	\$ 3.3935	FMMO True Protein Adjustment	\$2.05
Other Solids	5.73	FMMO Other Solids	\$ 0.1241	FMMO Other Solids Adjustment	(\$0.01)
Solids Not Fat (SNF)	9.51				
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.09				
CME Block Cheese Price	\$ 2.33				