



# WEEKLY NEWSLETTER

## "For SMART Management"

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### MARGINSMART® Sample Farm Profitability Changes From Last Report

	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	June '17	July '17	Aug '17	Sep '17
Change From Prior Week	+0.03	+0.46	+0.12	+0.05	-0.03	+0.11	+0.08	+0.03	+0.01	-0.01	-0.03	-0.05

#### WEEKLY MARGINSMART® Notes From President Mark Linzmeier



The weekly newsletter will keep you up-to-date on various topics such as market news, upcoming events, and getting the most out of MARGINSMART®.

#### MARGINSMART® Tip of the Week

This week's tip of the week focuses on hedging strategies involving cheese contracts. These fall into a category of "cross hedges" which refer to situations where a similar, but not the exact same, commodity is used to provide price risk for another commodity. The most important point to be made here is just that – since the EXACT commodity that the producer is paid in is not used for the price risk protection, there is an additional risk involved here. That risk is that the commodity used (in this case cheese) moves in a different relationship to Class III milk than Class III milk itself. For example, if a producer sells cheese futures for a particular month, and cheese futures then rise, but Class III milk does not, this would ultimately be negative to the producer – and vice versa. There are times when cross hedges provide a likely benefit, **but be careful!**

**Milk:** Milk production in the 23 major States during September totaled 16.0B pounds, up 2.3% from September 2015. August revised production at 16.7 billion pounds, was up 1.9% from August 2015. Production per cow averaged 1,842 pounds for September, 35 pounds above September 2015. This is the highest production per cow for the month of September since the 23 State series began in 2003. The number of milk cows on farms was 8.67 million head, 36,000 head more than September 2015, but 2,000 head less than August 2016.

#### Market News

##### Grains/Feedstuffs/Cattle/Poultry:

Summary of USDA 10/24/16 Crop Progress Report

- Corn harvested – 61% vs. 5 year avg of 62%
- SB Harvested - 62% vs. 5 year avg of 63%
- Cotton harvested – 39% vs. 5 year avg of 37%
- Sorghum harvested – 67% vs. 5 year avg of 58%
- Pasture conditions 46% good and excellent vs. 39% last year
- Topsoil moisture conditions in several key states are as follows:

IL - 76% adequate and 16% surplus = 92% total  
 IN - 75% adequate and 16% surplus = 91% total  
 IA - 84% adequate and 9% surplus = 93% total  
 MI - 67% adequate and 30% surplus = 97% total  
 MN - 78% adequate and 20% surplus = 98% total  
 WI - 78% adequate and 20% surplus = 98% total

#### MARGINSMART Insight

**WE ARE ENTERING THE ANNUAL "FALL COW RUN" FOR BEEF PACKERS. MANY BEEF COWS WILL BE HEADED TO THE MARKET IN THE NEXT 60 DAYS WHICH WILL LIKELY NEGATIVELY IMPACT CULL COW PRICES FOR THE PERIOD.**

Contact us for a FREE MARGINSMART® Demo!

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### Market Price Updates (As of 10/21/2016 Close)

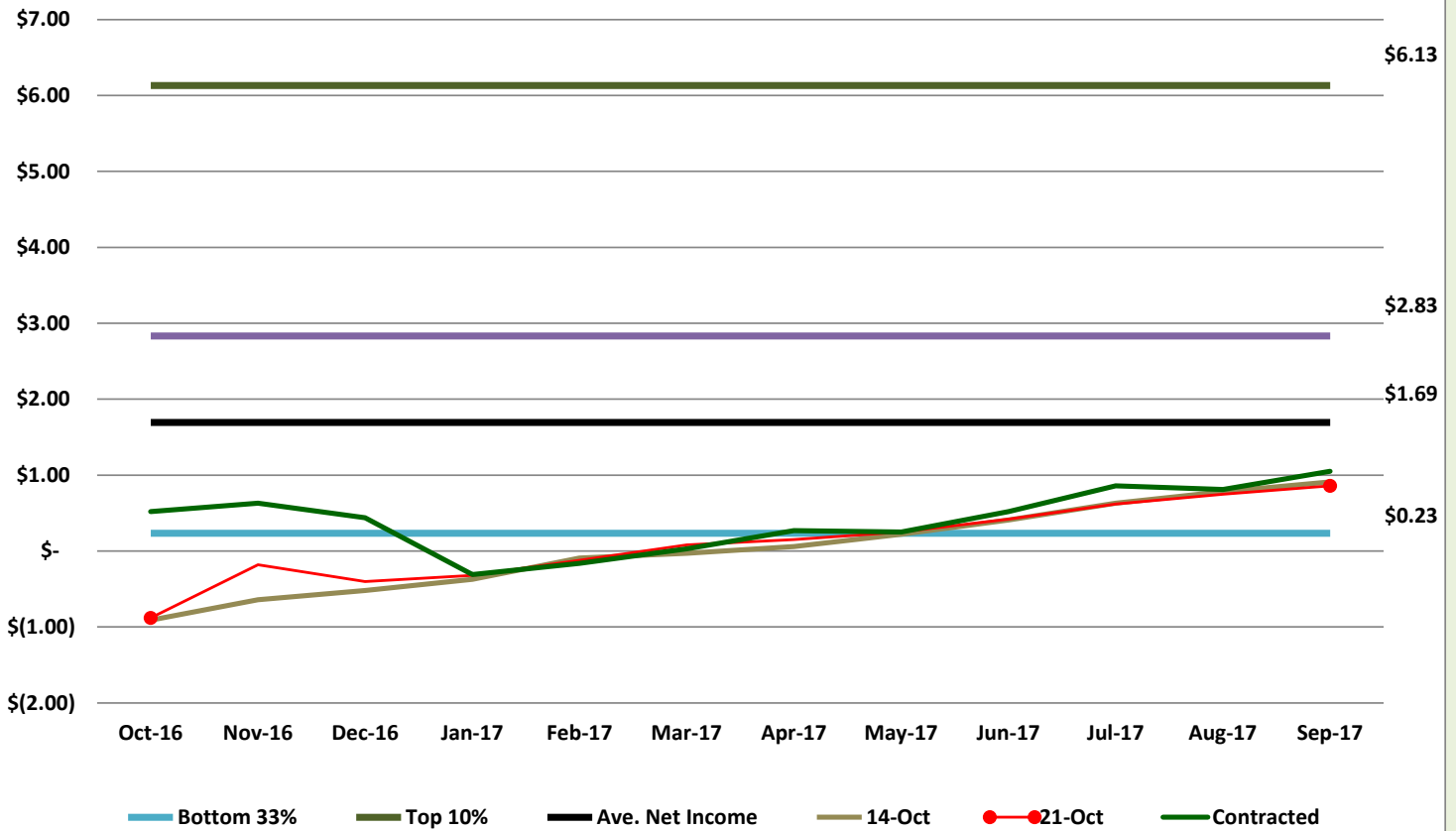
	Oct '16	+/-*	Nov '16	+/-*	Dec '16	+/-*	Jan '17	+/-*	Feb '17	+/-*	Mar '17	+/-*	Apr '17	+/-*
Class III Milk	14.73	+0.05	15.46	+0.42	15.21	+0.08	15.36	+0.04	15.55	-0.02	15.76	+0.12	15.90	+0.10
Class IV Milk	13.67	-0.21	13.54	-0.24	13.75	-0.32	14.11	-0.33	14.61	-0.27	15.11	-0.23	15.57	-0.08
Cash Butter	1.86	-0.03	1.84	+0.03	1.83	+0.00	1.67	+0.02	1.91	+0.03	1.95	+0.03	1.97	+0.01
Cash Cheese	1.58	+0.01	1.64	+0.04	1.61	+0.00	1.62	+0.00	1.64	+0.00	1.66	+0.01	1.67	+0.01
Corn					3.52	-0.02					3.62	-0.02		
Soybeans			9.83	+0.21			9.92	+0.22			9.99	+0.23		
Soybean Meal	300	+00			307	+06	308	+06			309	+05		

\*Change from the Previous Week Price



MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87 #s of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. The red line on the Net Income chart below shows the net income / cwt. available last Friday over the next 12 months based on 100% market prices for milk and feed, and full operating activities. We also show a green line for our Sample Farm that has executed milk and feed contracts as part of a price risk management strategy. **Effective 8/8/16, adjustments have been made to transition to no BST use by 3/31/17 which reduces milk production back to 83#s of milk per cow.**

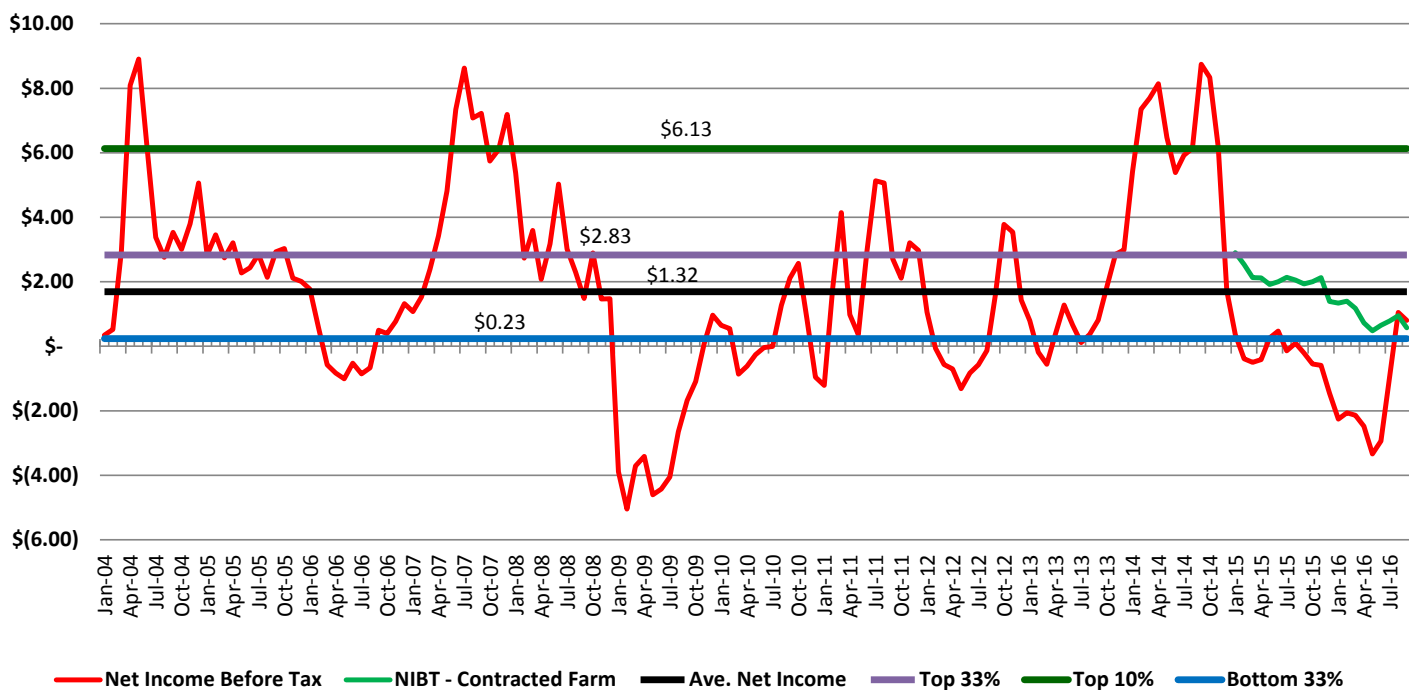
### Net Income Available October 21, 2016





MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87#s (current level – this has increased over the past 12 years) of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. We calculated the past 12 years' results (with adj. milk / day). The red line on the chart below shows the net income before tax for the last 12 years WITHOUT ANY contracting, and completely subject to market prices. It also shows the Top 10% (90<sup>th</sup> percentile), top 33% (67<sup>th</sup> percentage), the average and bottom 33% (33<sup>rd</sup> percentile.) **Effective 8/8/16, adjustments have been made to transition to no BST use by 3/31/17 which reduces milk production back to 83#s of milk per cow.**

## 2004-2016 Historical Net Income Before Tax





MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87#s (current level – this has increased over the past 12 years) of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. We calculated the past 12 year’s results (with adj. milk / day). The first chart is the yearly average net income per cwt. for the last 12 years. The second chart breaks the yearly income into quarterly increments per cwt. for the last 12 years. The charts below are a breakdown of the information in the historical graph above. **Effective 8/8/16, adjustments have been made to transition to no BST use by 3/31/17 which reduces milk production back to 83#s of milk per cow.**

### Historical Annual Average Net Income Before Tax

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.04	2.67	0.07	5.21	2.89	-2.79	0.44	2.52	0.60	0.95	6.46	-0.25

### Historical Quarterly Average Net Income Before Tax

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2004	1.27	7.70	3.22	3.95
2005	3.01	2.64	2.64	2.38
2006	0.58	-0.79	-0.34	0.83
2007	1.66	5.19	7.64	6.34
2008	3.90	3.43	2.27	1.95
2009	-4.22	-4.15	-2.79	-0.01
2010	0.11	-0.30	1.13	0.82
2011	1.58	1.42	4.30	2.76
2012	0.15	-0.95	0.30	2.92
2013	0.02	0.77	0.43	2.57
2014	6.82	6.67	6.93	5.41
2015	-0.18	.11	-0.08	-0.87
2016	-2.15	-2.92	0.31	