



"For **SMART** Management"

March 31, 2014 Vol. 2, Issue 13

MARGINSMART®
1600 W. Shawano Ave. Suite 201
Green Bay, WI 54303

TOLL FREE 877-474-7589

MARGINSMART® Sample Farm Profitability Changes From Last Week

	Mar. '14	Apr. '14	May '14	June '14	July '14	Aug. '14	Sep. '14	Oct. '14	Nov. '14	Dec. '14	Jan. '15	Feb. '15
Change From Prior Week	-02	+26	-28	-41	-34	-30	-24	-16	-21	-11	-13	.00

Welcome to MARGINSMART®

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

There has been a lot of questions and discussions on the "Margin Protection Program", or "MPP", of the Agricultural Act of 2014; aka the "Farm Bill". We highlighted this in recent newsletters, but due to the significance and questions we are including key highlights on pages 2-3 again this week.

The new "Farm Bill" as written is very much generalized for all dairy producers as a whole. It is not specific to any dairy, region or area of the country. We also have different Federal Milk Orders around the country. **MARGINSMART® gives you the tools to be able to make sound decisions for YOUR dairy and including decisions related to the "Margin Protection Program" of the new "Farm Bill".** For a more in-depth look at the dairy portion of the "Farm Bill" please go to page 2.

Market News

Milk: This week we will hit a couple key highlights:

- New cheese price records set on Mar 24, but retreated by \$.05-.08 per lb throughout the week
- Western Europe milk production in the EU-28 countries for Jan 2014 was up 5.1% from Jan 2013
- New Zealand Jan 14 milk prod. up 7.4% from Jan 13

Market News (Continued)

Grains/Feedstuffs/Cattle/Poultry: USDA released its latest grain stocks and estimated acreage report at 11:00 CST on 3/31/14. Here are the highlights:

- Trade estimated 2014 corn acres 92.75M
- USDA est. 91.7M acres, down 4% from 2013
- Early corn CBOT reaction – all futures prices are up 6-7 cents a bushel for the next 12 months
- Trade estimated hay and alfalfa acreage at 58.267M – virtually the same as 2013
- Trade est. soybean acres at 81.5M, USDA estimated at record 81.5M

Dairy specific cow slaughter in 2014 through 3/8/14 is 590,800 vs. 646,800 for 2013

Please see portions of the new Farm Bill on pages 2 and 3 of the newsletter.

MARGINSMART® Insight

Let MARGINSMART® help you navigate decisions around the MPP of the new Farm Bill to help you make informed decisions!

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Market Update (As of 3/28/2014 Close)

	Mar. '14	+/-*	Apr. '14	+/-*	May. '14	+/-*	Jul '14	+/-*	Aug. '14	+/-*	Sep. '14	+/-*	New Crop 14'	+/-*
Class III Milk	23.26	-03	23.81	+28	21.64	-10	20.30	-30	20.04	-25	19.73	-19	18.59**	-08
Class IV Milk	23.69	+09	23.52	+12	22.44	+03	21.10	+03	20.60	-09	20.42	-03	19.31**	-02
Corn					4.92	+13	4.96	+12			4.91	+10	4.87**	+07
Soybeans					14.36	+27	14.08	+26	13.51	+26	12.47	+15	11.90**	+13
Soybean Meal					468	+12	454	+13	431	+12	406	+10	377**	+7

*Change from the Previous Week Price

**New Crop: Milk (Dec.), Corn (Dec.), Soybeans (Nov.), Soybean Meal (Dec.)

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Farm Bill (continued from page 1)

The main emphasis in the dairy section of the Farm Bill is the Margin Protection Program. The Secretary of Agriculture has until September 1, 2014 to roll out the entire program and identify all of the specific details. While some of those details remain to be determined, the following includes a combination of direct excerpts from the bill itself and our commentary.

The bill considers a dairy as the following “as determined by the Secretary, 1 or more dairy producers that produce and market milk as a single dairy operation in which each dairy producer—(i) shares in the risk of producing milk; and (ii) makes contributions (including land, labor, management, equipment, or capital) to the dairy operation of the individual or entity, which are at least commensurate with the individual or entity’s share of the proceeds of the operation.” More details on this will likely be rolled out as part of the final program.

Some of the terminologies in the bill are “actual dairy production margin” which means the difference between the all-milk price and the average feed cost, as calculated by the Secretary of Agriculture. The “all-milk price” which means “the average price received, per hundred weight of milk, by dairy operations for all milk sold to plants and dealers in the United States, as determined by the Secretary”. The “average feed cost” is defined as the average cost of feed used by a dairy operation to produce a cwt. of milk. It is determined under section 1402 using the sum of the following:

- (A) The product determined by multiplying 1.0728 by the price of corn per bushel.
- (B) The product determined by multiplying 0.00735 by the price of soybean meal per ton.
- (C) The product determined by multiplying 0.0137 by the price of alfalfa hay per ton

The calculation of average feed costs will be determined as follows – “The Secretary shall calculate the national average feed cost for each month using the following data:

(1) The price of corn for a month shall be the price received during that month by farmers in the United States for corn, as reported in the monthly Agricultural Prices report by the Secretary.

(2) The price of soybean meal for a month shall be the central Illinois price for soybean meal, as reported in the Market News–Monthly Soybean Meal Price Report by the Secretary.

(3) The price of alfalfa hay for a month shall be the price received during that month by farmers in the United States for alfalfa hay, as reported in the monthly Agricultural Prices report by the Secretary.” as per section 1402.

The actual “Dairy Protection Margin” will be calculated by subtracting the average feed cost for a consecutive 2-month period as described above from the all-milk price for the same 2-month period. The two month periods are Jan-Feb, Mar-Apr, May-June, July-Aug, Sep-Oct, and Nov-Dec.

A few important aspects here are that the margins as calculated under the MPP WILL NOT be specific to any dairy, do not include feed fed to dry cows or youngstock and do not take into account regional feed cost differences or efficiency variation amongst dairies.

All dairy operations in the United States are eligible to participate in the margin protection program. For operations with multiple operators, each operator is treated as a single operator in regards to the program. If multiple operations are owned by same operator, each operation will be registered as a separate operation. Upon registration a \$100 administration fee will be assessed to each participating dairy.

A production history will be taken for each dairy operation that will equal the highest annual milk marketed during the 2011, 2012, or 2013 calendar years. In subsequent years, the Secretary shall adjust the production history of a participating dairy operation to reflect any increase in the national average.

Protection levels are as follows – “For purposes of receiving margin protection payments for a consecutive 2-month period, a participating dairy operation shall annually elect (more details to be provided yet):

(1) a coverage level threshold that is equal to \$4.00, \$4.50, \$5.00, \$5.50, \$6.00, \$6.50, \$7.00, \$7.50, or \$8.00;

(2) and a percentage of coverage, in 5-percent increments, beginning with 25 percent and not exceeding 90 percent of the production history of the participating dairy operation.

(b) PAYMENT THRESHOLD.—A participating dairy operation shall receive a margin protection payment whenever the average actual dairy production margin (as calculated above for the industry) for a consecutive 2-month period is less than the coverage level threshold selected by the participating dairy operation.

(continued on page 3)

(continued from page 2)

(c) AMOUNT OF MARGIN PROTECTION PAYMENT—

The margin protection payment for the participating dairy operation shall be determined as follows:

(1) The Secretary shall calculate the amount by which the coverage level threshold selected by the participating dairy operation exceeds the average actual dairy production margin for the consecutive 2-month period.

(2) The amount determined under paragraph (1) shall be multiplied by—

(A) the coverage percentage selected by the participating dairy operation; and

(B) the production history of the participating dairy

The premiums are calculated as follows:

(a) CALCULATION OF PREMIUMS.—For purposes of participating in the MPP, a participating dairy operation shall pay an annual premium equal to the product obtained by multiplying—

(1) the coverage percentage elected by the participating dairy operation under section 1406(a)(2);

(2) the production history of the participating dairy operation; and

(3) the premium per hundredweight of milk imposed by this section for the coverage level selected.

(b) PREMIUM PER HUNDREDWEIGHT FOR FIRST 4 MILLION POUNDS OF PRODUCTION.—

(1) IN GENERAL.—For 4,000,000 pounds of milk marketing's included in the production history of a participating dairy operation, the premium per hundredweight for each coverage level is specified in the table contained in paragraph (2).

(2) PRODUCER PREMIUMS.—Except as provided in paragraph (3), the following annual premiums apply:

Coverage Level	Premium per Cwt.
\$4.00	None
\$4.50	\$0.010
\$5.00	\$0.025
\$5.50	\$0.040
\$6.00	\$0.055
\$6.50	\$0.090
\$7.00	\$0.217
\$7.50	\$0.300
\$8.00	\$0.475

(3) SPECIAL RULE.—The premium per hundredweight specified in the table contained in paragraph (2) for each coverage level (except the \$8.00 coverage level) shall be reduced by 25 percent for each of calendar years 2014 and 2015.

(c) PREMIUM PER HUNDREDWEIGHT FOR PRODUCTION IN EXCESS OF 4 MILLION POUNDS.—

(1) IN GENERAL.—For milk marketings in excess of 4,000,000 pounds included in the production history of a participating dairy operation, the premium per hundredweight for each coverage level is specified in the table contained in paragraph (2).

(2) PRODUCER PREMIUMS.—The following annual premiums apply:

Coverage Level	Premium per Cwt.
\$4.00	None
\$4.50	\$0.020
\$5.00	\$0.040
\$5.50	\$0.100
\$6.00	\$0.155
\$6.50	\$0.290
\$7.00	\$0.830
\$7.50	\$1.060
\$8.00	\$1.360

There are still questions whether the premiums for the first 4M pounds will be used first for dairies that have production in excess of 4M pounds or if the premiums will be averaged with the rates above 4M pounds. More on this is expected to come as the details of the MPP are finalized.

The program is to go into effect no later than September 1, 2014 and be in effect until December 31, 2018. The new bill eliminates Dairy Product Price Support Program and will eventually repeal the Milk Income Loss Contract (MILC) Program. The MILC will be in effect until the Margin Protection Program goes into effect. ***A dairy can only participate in either the MPP OR the Livestock Gross Margin (LGM) program.***

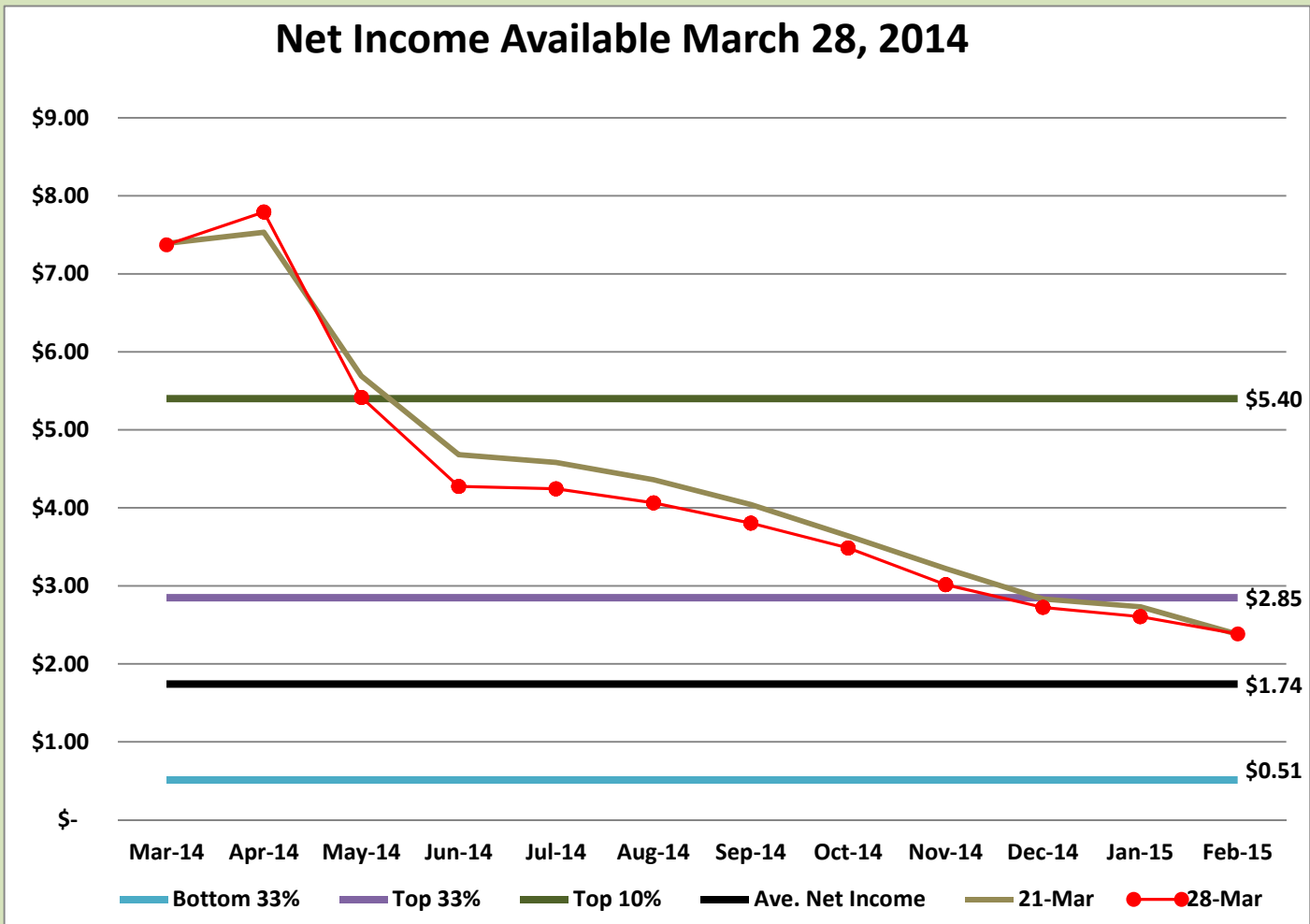
For a copy of the complete Agricultural Act of 2014 go to the following website:

<http://agriculture.house.gov/sites/republicans.agriculture.house.gov/files/pdf/legislation/AgriculturalAct2014.pdf>



MARGINSMART® maintains a fully virtual Sample Farm with 1,500 mature cows and an 85 #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.

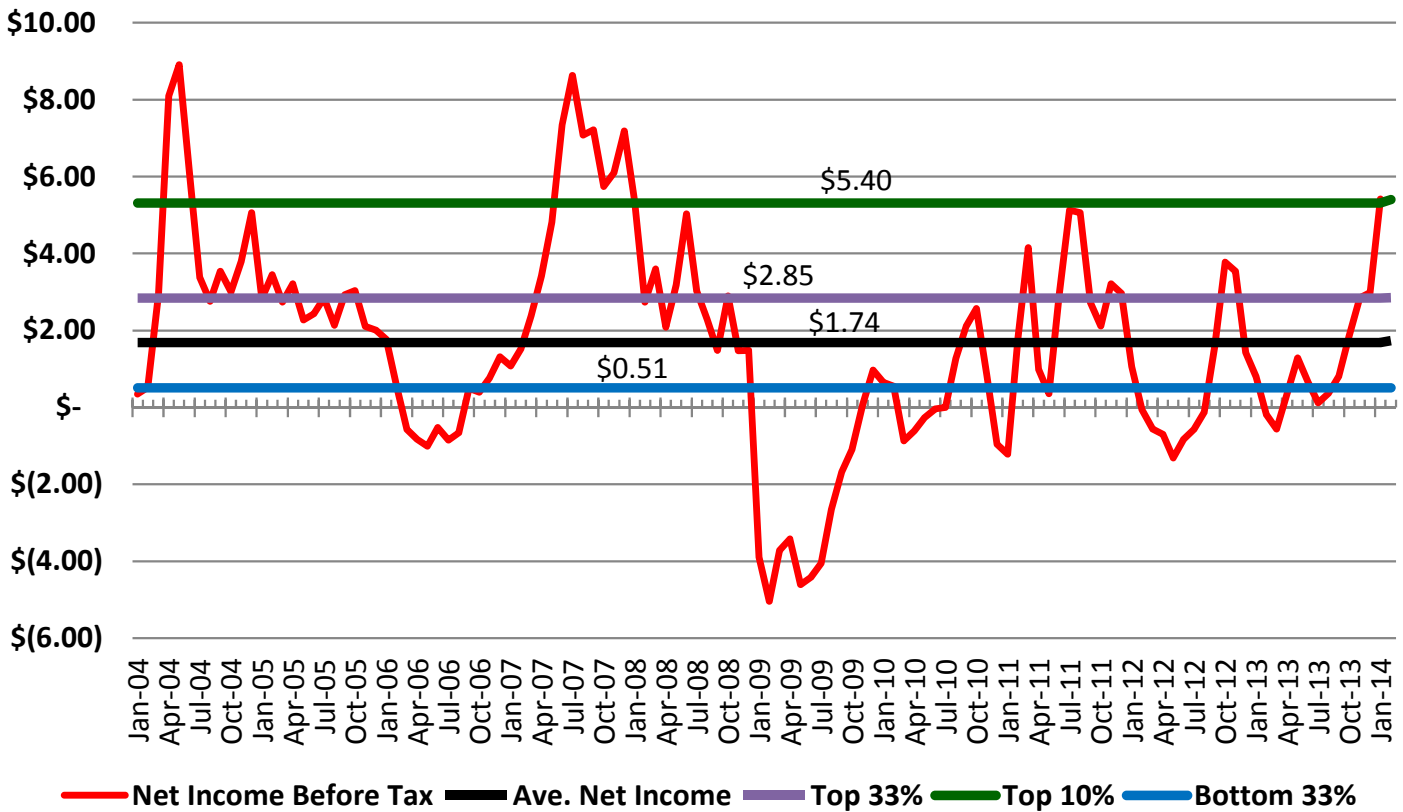
Net Income Available March 28, 2014





MARGINSMART® maintains a fully virtual Sample Farm with 1,500 mature cows and an 85 #s (current level – this has increased over the past 10 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 10 years’ results (with adj. milk / day). The red line on the chart below shows the net income before tax for the last 10 years WITHOUT ANY contracting, and completely subject to market prices. It also shows the Top 10% (90th percentile), top 33% (67th percentage), the average and bottom 33% (33rd percentile.)

2004-2014 Historical Net Income Before Tax





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Historical Yearly Average Net Income Before Tax

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

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