



"For SMART Management"

August 4, 2014 Vol. 2, Issue 31

MARGINSMART®

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MARGINSMART® Sample Farm Profitability Changes From Last Week

	Aug. '14	Sep. '14	Oct. '14	Nov. '14	Dec. '14	Jan. '15	Feb. '15	Mar. '15	April '15	May '15	June '15	July '15
Change From Prior Week	+09	+93	+1.02	+60	+40	+29	+35	+34	+18	+21	+21	+45

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

This week we will revisit the Agricultural Act of 2014; aka the "Farm Bill". We originally commented on this back in February but as the deadline for the program details nears we thought it would be helpful to revisit some of the key components that will ultimately be fine-tuned as we get closer to September 1, 2014.

The new Farm Bill is for all dairy producers as a whole. It is not specific to any region or area of the country. As we all know, there are no two dairy farms that are exactly, and generally they operate differently. We also have different Federal Milk Orders around the country. For this reason MARGINSMART® is a great tool available to YOU. **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: Milk production in Western Europe is up 5.4% for Jan-May 2014 versus 2013. Eastern Europe milk deliveries are also up YTD. Mild winter weather has Australian and New Zealand milk production also up significantly.

Market News (Continued)

Grains/Feedstuffs/Cattle/Poultry:

- The 8/4/14 USDA crop report shows 73% of corn in the good to excellent rating vs. 64% last year.
- The 8/4/14 USDA crop report shows 71% of soybean acreage in the good to excellent rating vs. 64% last year.
- All stages of maturity of corn and soybeans are running ahead of the 5 year averages.
- Basis levels on soybeans are generally falling as well in anticipation of a large crop.
- Various commodity prices are falling in response to expected large corn and soybean production.

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

MARGINSMART® Insight

Utilize the Monthly Pricing components of MARGINSMART® for all feed ingredients to project monthly feed costs based on new crop costs!

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www.marginsmart.com

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Market Update (As of 8/1/2014 Close)

	Aug '14	+/-*	Sep '14	+/-*	Oct '14	+/-*	Nov '14	+/-*	Dec '14	+/-*	Jan '15	+/-*	Mar '15	+/-*
Class III Milk	21.47	+02	21.57	+85	20.82	+92	19.92	+57	19.48	+38	18.70	+30	18.20	+20
Class IV Milk	23.10	-39	22.03	+03	20.92	-17	19.85	-15	18.87	-03	18.52	-08	18.25	-10
Corn			3.52	-11					3.62	-10			3.75	-08
Soybeans	12.15	+03	10.73	-41			10.58	-25			10.67	-23	10.75	-21
Soybean Meal	388	-10	356	-14	345	-9			342	-8	341	-8	343	-6

*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 following includes a combination of direct excerpts from the bill itself and our commentary.

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” as per Section 1401. The “average feed cost” is defined as the average cost of feed used by a dairy operation to produce a hundredweight of milk, 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.”

as written in section 1401 of the bill. 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.”

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.

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-

- (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; and
- (2) 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.

(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.

(continued on page 3)

(continued from page 2)

(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 margin protection program, 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 the first 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

Subject to the Secretary's discretion, it appears that participation will be on an annual basis, prorated in the first year of the program.

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.

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

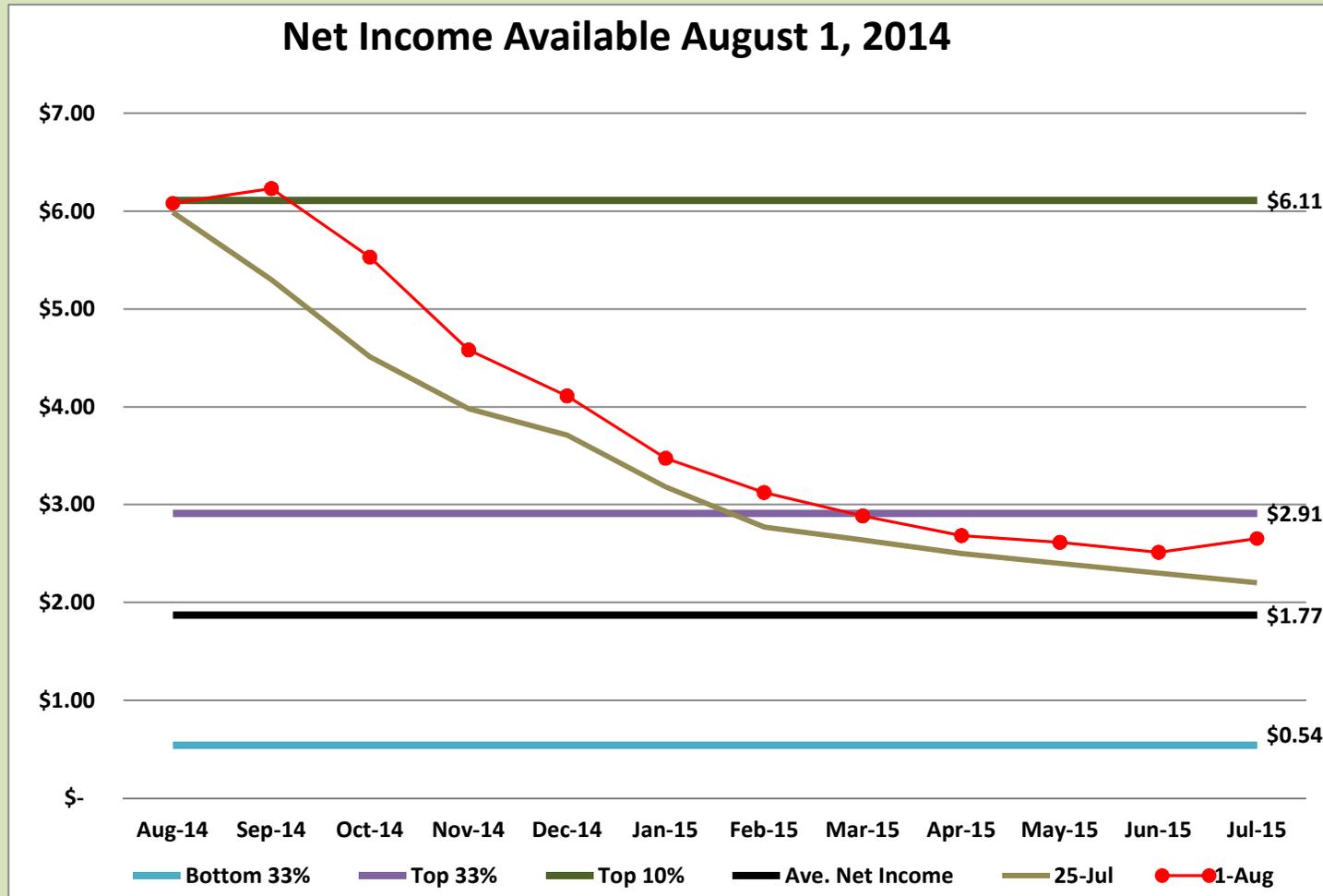
<http://agriculture.house.gov/sites/republicans.agriculture.house.gov/files/pdf/legislation/AgriculturalAct2014.pdf>

We will have more information in our newsletter next week.



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.

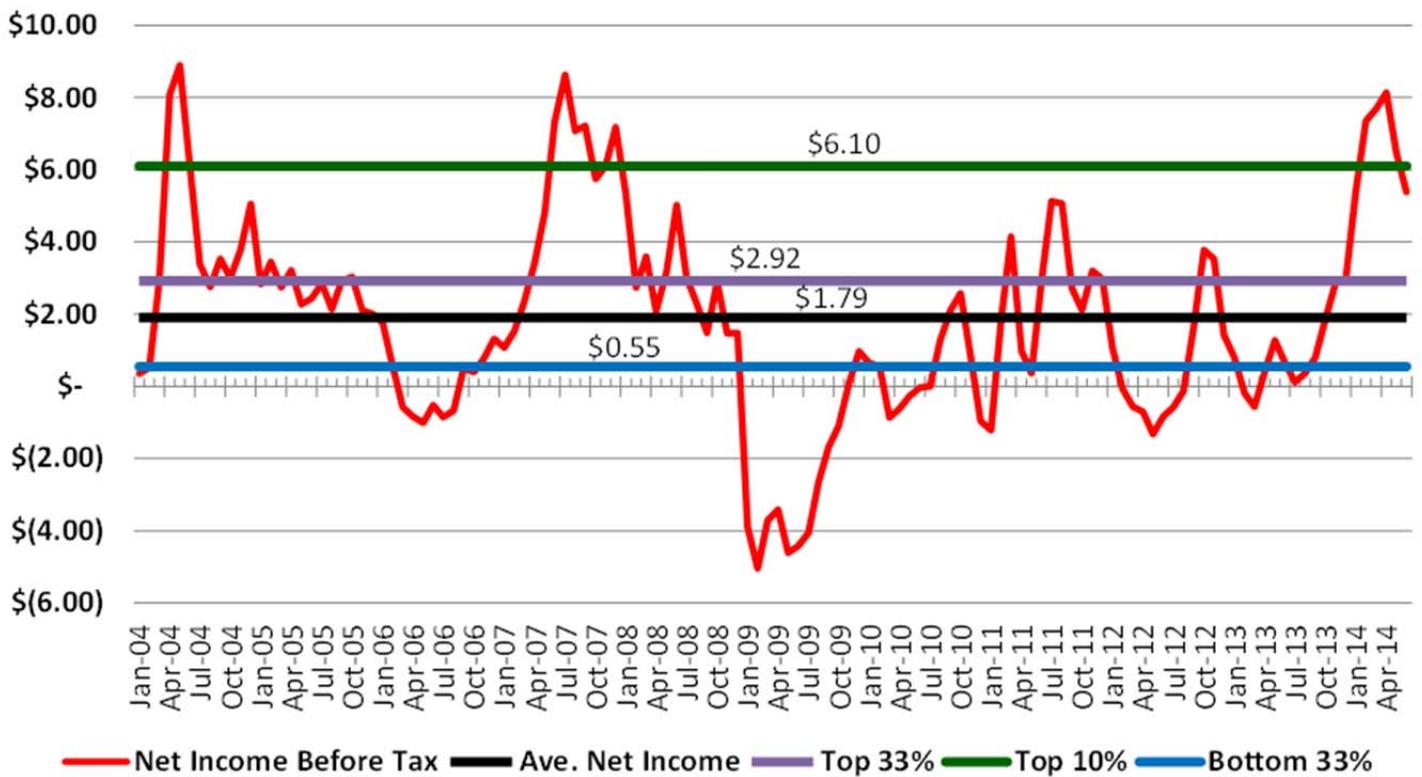
Net Income Available August 1, 2014





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 Quarterly 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
2014	6.82	6.67		