



# "For SMART Management"

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MARGINSMART®

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## MARGINSMART® Sample Farm Profitability Changes From Last Week

	Sep. '14	Oct. '14	Nov. '14	Dec. '14	Jan. '15	Feb. '15	Mar. '15	April '15	May '15	June '15	July '15	Aug '15
Change From Prior Week	+06	+1.48	+2.09	+1.66	+0.89	+0.25	+0.06	+0.00	-0.07	-0.09	+0.07	+0.15

### 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

The tip of the week revolves around more information related to the new Margin Protection Program (MPP) of the 2014 Farm Bill. Dairy producers that currently have LGM contracts in place cannot also participate in the MPP program until the expiration of the LGM contract periods. The sign up period for 2014 and 2015 ends November 28, 2014. There will not be much reason to sign up for 2014 as prices would have to change significantly for there to be any payments, so any premiums would likely be lost. We have again highlighted some of the key features of the MPP on page 2 of this newsletter.

### Market News

**Milk:** A few highlights:

- Butter hit record USA prices recently. However, imported butter is up to \$1 per pound cheaper than domestic and some buyers are making the switch.
- Dairy exports have been off in total \$ each of the last 4 months; however, the 7 months YTD through July is still 22% above the same months of 2013
- USDA lowered its 2015 All-Milk price by \$.35 per cwt.
- Dairy cull cows are 212,000 head less through August 2014 compared to 2013

### Market News (Continued)

**Grains/Feedstuffs/Cattle/Poultry:**

This week we look at a few crop/grain related topics:

- USDA raised corn production estimates to 14.4B bushels or 171.7 bu per acre for the 2014 crop
- Ending 2014/15 corn stocks are now projected at just over 2B bushels
- SB production was also raised 100M bu for 2014
- There is minimal relief of pressure on basis for soybean and soybean related feed ingredients, but prices remain high until new crop soybeans arrive.
- 74% of corn was rated as good to excellent on 9/21/14 with 7% harvested.

**Plan on Visiting our Booth  
AL-222 at World Dairy Expo  
September 29 – October 4.**

### MARGINSMART® Insight

**MARGINSMART® PRESENTS MARK LINZMEIER ON  
FRIDAY OCT 3 AT WORLD DAIRY EXPO FOR THREE  
KEY FINANCIAL DISCUSSIONS! SEE FLYER!**

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### Market Update (As of 9/19/2014 Close)

	Sep '14	+/-*	Oct '14	+/-*	Nov '14	+/-*	Dec '14	+/-*	Jan '15	+/-*	Feb '15	+/-*	Mar '15	+/-*
Class III Milk	24.54	+02	24.70	+1.35	22.63	+1.96	21.06	+1.61	18.96	+83	17.95	+24	17.54	+03
Class IV Milk	22.46	+19	22.85	+1.23	20.67	+1.29	18.92	+1.52	18.15	+1.06	17.50	+90	17.50	+73
Corn	3.39	+00					3.31	-07					3.44	-07
Soybeans	10.91	+00			9.57	-28			9.65	-27			9.73	-25
Soybean Meal	408	-0	324	-15			315	-13	313	-12			312	-11

\*Change from the Previous Week Price

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

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The following highlights the key components of the MPP:

**ELIGIBLE DAIRY OPERATIONS:**

- All dairy farms that produce and commercially market milk from cows located in the United States
- Must provide proof of milk production at the time of registration
- Cannot be enrolled in the Livestock Gross Margin for Dairy (LGM) program. However, since some dairy operations may already be participating in the LGM program an exception is made for the 2014 and 2015 enrollment in MPP whereby a dairy can choose to enroll in MPP and have coverage start after the target month of marketings under LGM has ended and proof that the LGM policy has been cancelled.
- Must be in compliance with Highly Erodible land and other conservation programs
- Rules apply for affiliated owners of more than one dairy operation. If affiliation rules apply, all operations are combined for MPP.

**REGISTRATION:**

- Registration occurs at the FSA office where farm records are maintained by:
  - Establishing production history (CCC-781)
  - Completing and signing election form (CCC-782)
  - Paying administrative fee and premiums
- Registration for 2014 and 2015 is combines and runs from September 2, 2014 – November 28, 2014
- Registration thereafter is annually and periods are July 1 – September 30 of the previous year
- Requires participation in all years after registration
- There are separate rules for new dairy operations

**PRODUCTION HISTORY:**

- Must be provided at initial registration and is subject to verification by FSA
- Highest annual production for calendar years 2011, 2012 or 2013
- Special rules apply to new operations
- In subsequent years production history will be adjusted via national average milk production
- Otherwise No change in production history will occur, even if dairy was expanding during 2013/2014

**COVERAGE ELECTION:**

Minimum margin level is \$4.00 per cwt.  
Maximum margin level is \$8.00 per cwt.

- Intervals are every \$.50 per cwt. between \$4.00 and \$8.00 per cwt.
- Dairy operations may only select one level per year
- ALL producers that share risk in the dairy operation must agree to the level on the contract
- Can elect coverage between 25%-90% in 5% levels
- Can change coverage annually

**PRODUCER PREMIUMS:**

The first 4M pounds per year selected will be at a lower price (Applies even if prod. history exceeds 4M pounds)

Coverage	1 <sup>st</sup> 4M Pounds	Over 4M Pounds
<u>Level</u>	<u>Per Cwt.</u>	<u>Per Cwt.</u>
\$4.00	None	None
\$4.50	\$0.010	\$.020
\$5.00	\$0.025	\$.040
\$5.50	\$0.040	\$.100
\$6.00	\$0.055	\$.155
\$6.50	\$0.090	\$.290
\$7.00	\$0.217	\$.830
\$7.50	\$0.300	\$1.06
\$8.00	\$0.475	\$1.36

- For 2014 and 2015 a 25% reduction will be effective for all premiums (except the \$8.00 level) for the 1st 4M pounds
- Premiums for 2014 are due at registration
- For all other at premiums can either be paid in full at registration, or ¼ by February 1 and the balance by June 1 of the calendar year of coverage
- If premiums are not paid, no coverage or benefits will be available

**MARGIN CALCULATIONS:**

- Calculated for every 2 month period
- The difference between the national all-milk price and the *national average feed cost calculated as:*
  - (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

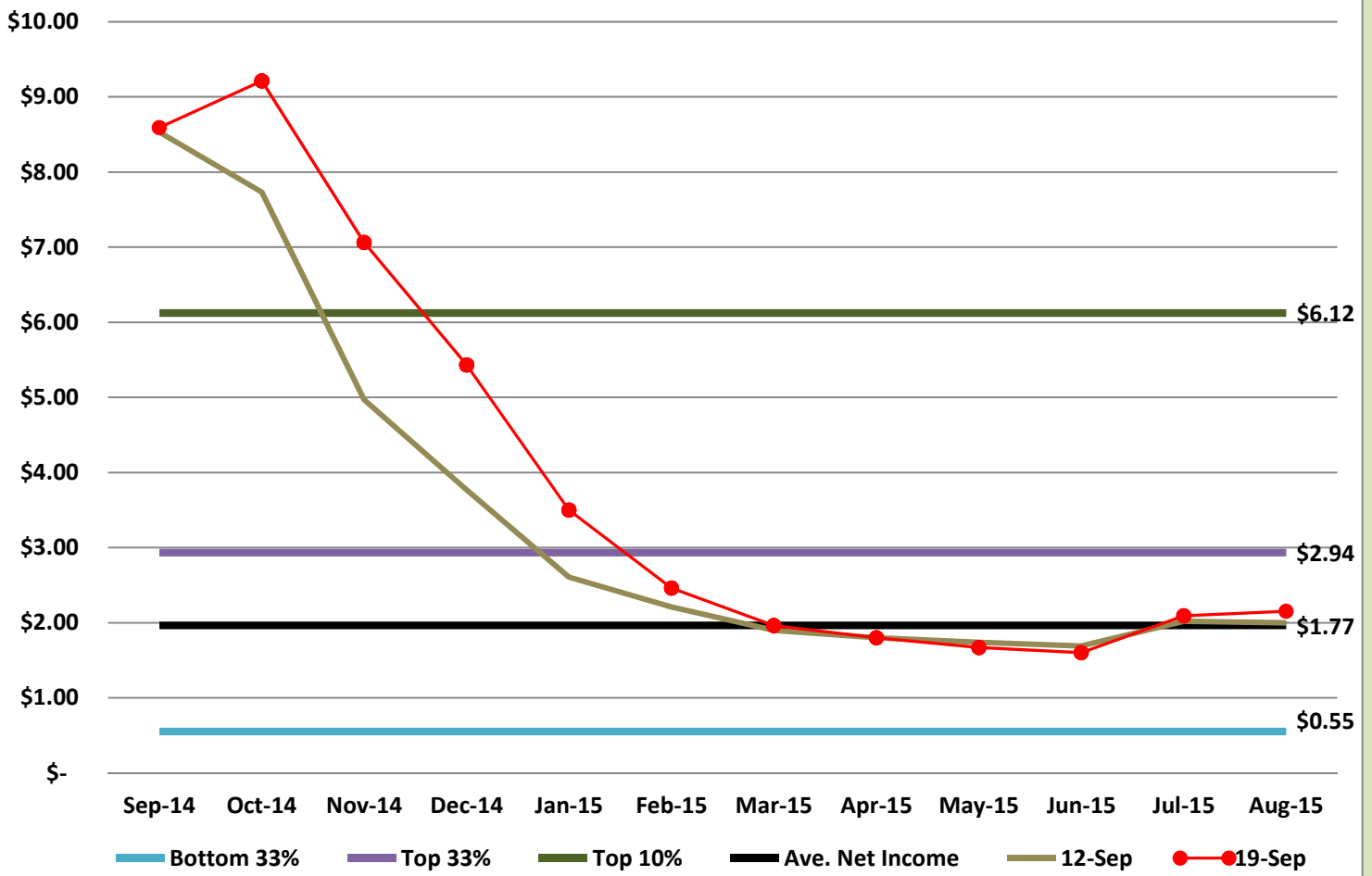
**CONTRACT MODIFICATIONS:**

- Available for death and various other changes
- Notify FSA office for approval



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.

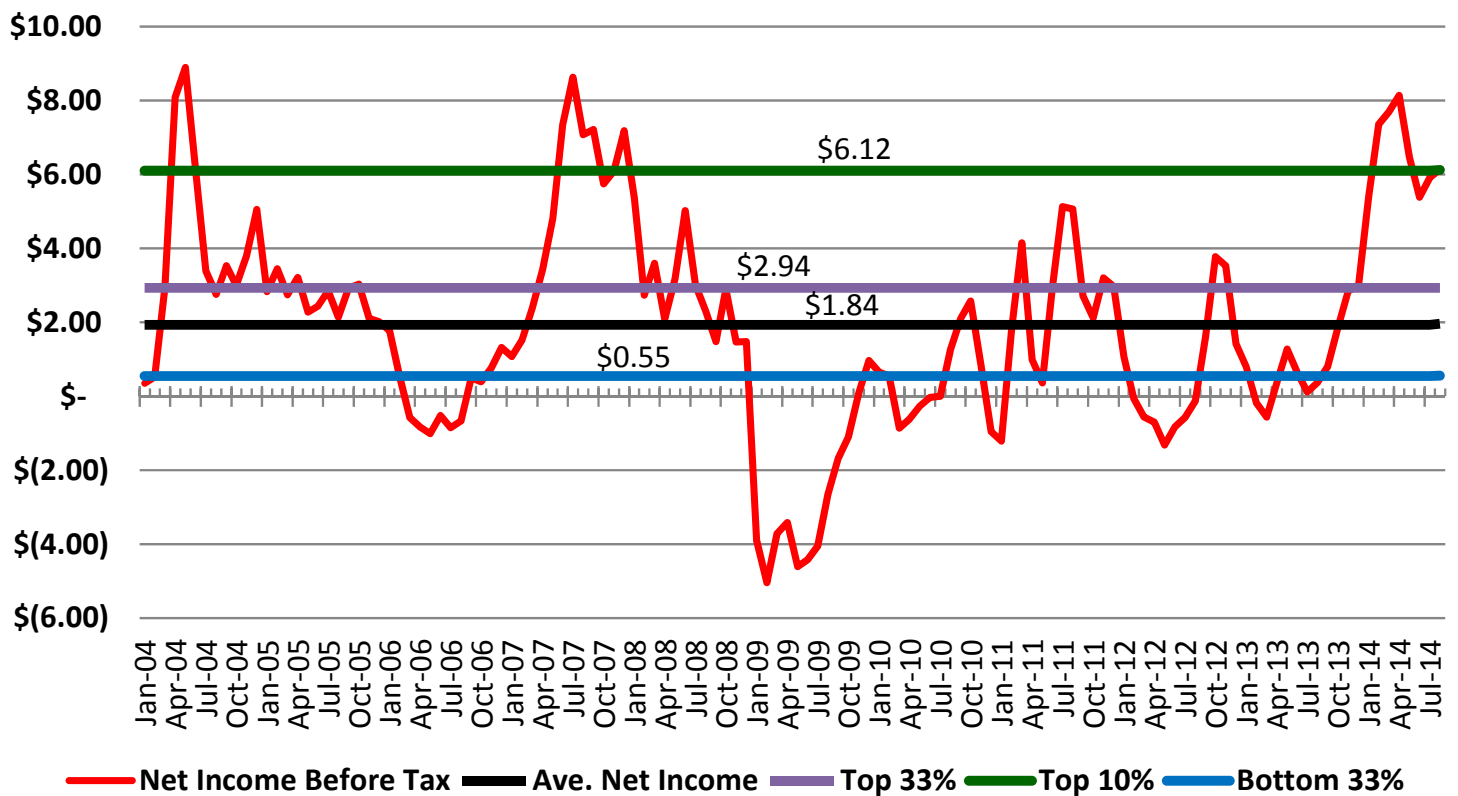
### Net Income Available September 19, 2014





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% (90<sup>th</sup> percentile), top 33% (67<sup>th</sup> percentile), the average and bottom 33% (33<sup>rd</sup> percentile.)

## 2004-2014 Historical Net Income Before Tax





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 year’s results (with adj. milk / day). The first chart is the yearly average net income per cwt. for the last 10 years. The second chart breaks the yearly income into quarterly increments per cwt. for the last 10 years. The charts below are a breakdown of the information in the historical graph above.

### 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		