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Margin Protection Program Tools Available

On August 28, United States Department of Agriculture (USDA) Secretary Tom Vilsack announced the final details of the Margin Protection Program (MPP) for dairy. Replacing the MILC, Dairy Product Price Support and Dairy Export Incentive Programs, the voluntary MPP provides dairy producers the opportunity to purchase insurance against catastrophically low milk price-feed cost margins.

In summary:

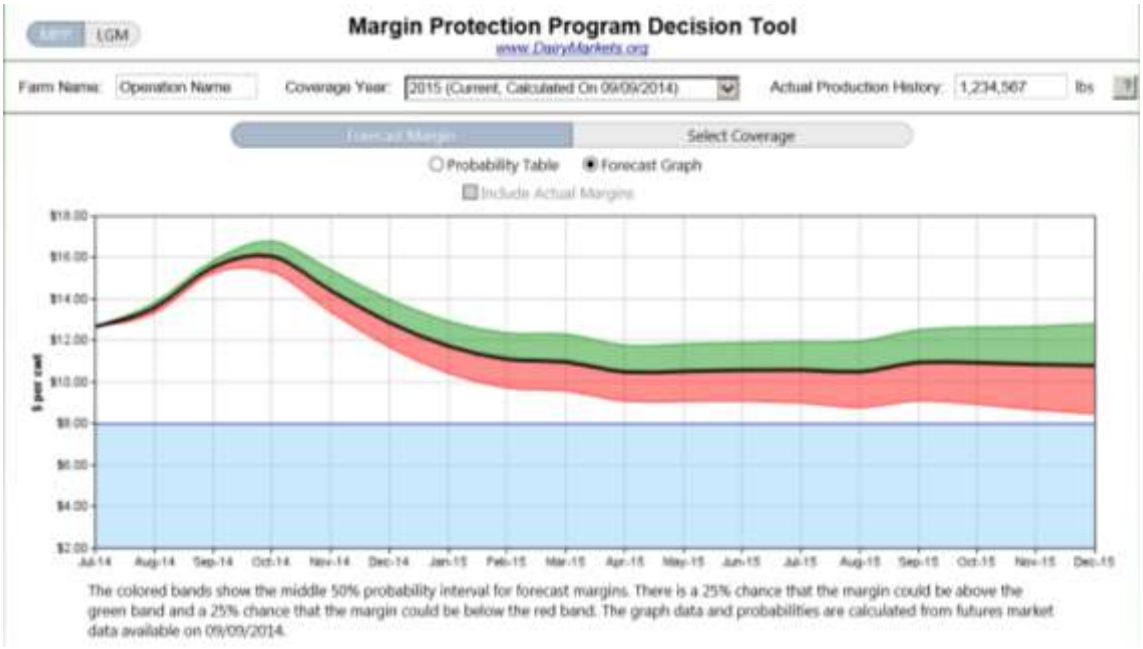
- MPP is based on an income over feed cost (IOFC) margin using national average prices for milk, corn, soybean meal and alfalfa hay.
- Producers may opt to insure between 25% and 90% of their base production.
- The basic insurance of $4.00/cwt. margin costs an annual $100 administrative fee. Higher levels of insurance can be purchased for predetermined premiums.
- Each year producers can change their level of coverage the amount of base production insured.

MPP indemnity payments are not tied to the IOFC margins for each dairy. The indemnity payments are based strictly off the national average income over feed cost, which may be higher or lower than the margins on individual dairies. The details of the program's enrollment process and insurance provisions can be found at USDA's Farm Service Agency (FSA) web site, http://www.fsa.usda.gov/FSA/.

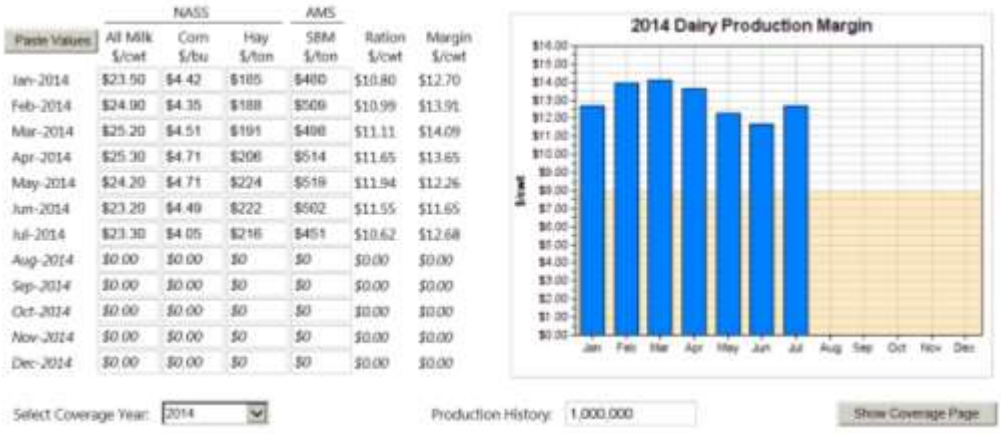
Analytical Tools

Online analytical tools are available to help producers make decisions about MPP enrollment. Two of the most popular tools use different approaches. The FSA Margin Protection Program Decision Tool is available on the FSA web site and was developed in conjunction with several agricultural universities. This analyzer is periodically and automatically updated with futures prices for milk and feed costs to project monthly IOFC for the next MPP enrollment year. The analysis also includes tables showing every month's probability of having national average margins below the available insurance coverage options. In addition, producers may enter the pounds of their base production and the percentage of production they choose to insure. The analyzer shows the fees and premiums, expected indemnity payments and expected net returns for each level of available coverage.

The National Milk Producers Federation (NMPF) produced an analysis tool using a different approach. Their Margin Protection Program Calculator (shown on the next page) allows users to enter their own estimates for future milk prices and feed costs. Based on those prices, the calculator determines the expected ration cost and IOFC margin. Then, by entering production levels and electing a coverage percentage, the analysis will show the insurance costs and expected indemnity returns for each coverage level option.



Farm Service Agency tool
http://www.fsa.usda.gov/FSA/pages/content/farmBill/fb_MPPDTool.jsp



	NASS			AMS			
Paste Values	All Milk $/cwt	Corn $/bu	Hay $/ton	SBM $/ton	Ration $/cwt	Margin $/cwt
Jan-2014	$23.50	$4.42	$185	$480	$10.80	$12.70
Feb-2014	$24.00	$4.35	$188	$509	$10.99	$13.91
Mar-2014	$25.20	$4.51	$191	$488	$11.11	$14.09
Apr-2014	$25.30	$4.71	$206	$514	$11.65	$13.65
May-2014	$24.20	$4.71	$224	$519	$11.94	$12.26
Jun-2014	$23.20	$4.49	$222	$502	$11.55	$11.65
Jul-2014	$23.30	$4.05	$216	$451	$10.62	$12.68
Aug-2014	$0.00	$0.00	$0	$0	$0.00	$0.00
Sep-2014	$0.00	$0.00	$0	$0	$0.00	$0.00
Oct-2014	$0.00	$0.00	$0	$0	$0.00	$0.00
Nov-2014	$0.00	$0.00	$0	$0	$0.00	$0.00
Dec-2014	$0.00	$0.00	$0	$0	$0.00	$0.00

National Milk Producers Federation tool
http://www.futurefordairy.com/mpp-calculator

Investment Option or Insurance Opportunity?

Producers considering participating in the MPP may opt to view the program as either an investment option or an insurance opportunity. Both of the analytical tools outlined above project the expected net returns for each available level of insurance coverage. Producers may decide to simply select the option with the greatest net return. For example, current futures markets project 2015 national income over feed costs at a high of $11.50 per hundredweight in January to a low of approximately $10.00 in August. The same set of futures prices project a 50% probability that the income over feed cost margin will fall between a high of $12.50 and $8.50 during the year. Therefore, the projected margins are never low enough to trigger indemnity payments at any level of coverage selected. With limited opportunity for a return on insurance premiums invested, producers may opt to select the $4.00/cwt coverage for only the cost of the $100 annual administrative fee. Because the insurance premiums for the different levels of coverage are fixed for the life of the Farm Bill, producers can wait until the end of each enrollment period in order to base their enrollment decision on the most current futures prices available without fear of the premiums changing.

Using MPP to protect specific margins for specific dairies introduces an additional level of complexity to the program. Producers will need to know the historical difference between the national IOFC and the IOFC for their dairy, referred to as basis. For example, milk prices in the Upper Midwest and Northeast tend to be higher than the national average, while feed costs are typically lower. When the national average income over feed cost is $5.50, the actual margin in those areas could be approximately $6.50. Therefore producers wanting to insure a $5.50 margin <u>*on their dairy*</u> could do so by enrolling at the $4.50 MPP level due to their $1.00/cwt. basis. Conversely, California milk prices are typically lower and feed prices are higher than national averages. Therefore, a California producer wanting to insure a $5.50 margin <u>*for their operation*</u> may need to enroll in MPP at $7.00 or higher.

When attempting to adjust MPP coverage to account for basis, producers must also consider the wide differences in premium rates for varying levels of coverage. For example, moving from $6.50 to $7.00 insurance costs $0.54/cwt. for coverage above four million pounds of milk. And an individual dairy's basis will not change the amount of payment from MPP when national IOFC margins cause payments to be triggered. Producers may find it to be more cost effective to manage margin risk for their specific levels of IOFC by selecting MPP for maximum returns and using options, futures and forward contracting to account for basis.

Unique to Jerseys

Since the adoption of the MPP earlier this year, producers have asked NAJ what will be the 'sweet spot' for Jersey herds given their higher components. Jersey herds wanting to insure a specific margin for their dairy through MPP face an even more complicated basis calculation. The basis between their on-farm IOFC and national average margins is impacted by more than just the differences in regional milk and feed costs. The higher-than-average value of Jersey milk is partially muted by typically higher per hundredweight feed costs. Data published by the California Department of Food and Agriculture for the past several years show Jersey IOFC ranges from $2.00 to $2.50/cwt. higher than Holsteins in California.

The MPP and its analytic tools offer producers the opportunity to determine the probabilities that indemnity payments will exceed insurance premiums. From there, producers may want to choose the coverage with the maximum potential returns and to combine MPP other risk management tools to account for their dairy's basis. For a MPP fact sheet, visit www.fsa.usda.gov/Internet/FSA_File/mpp_dairy.pdf.

NAJ Milk & Component Outlook - *July 2014 Jersey Price Comparisons*

JUL '14 STATISTICAL BLEND PRICE

Northeast (Boston)	$24.75
Appalachian (Charlotte)	$25.95
Southeast (Atlanta)	$26.43
Florida (Tampa)	$27.95
Mideast (Cleveland)	$23.48
Upper Midwest (Chicago)	$22.05
Central (Kansas City)	$23.02
Southwest (Dallas)	$23.55
Arizona (Phoenix)	$23.73
Pacific Northwest (Seattle)	$23.15
ALL FMMO MARKET AVERAGE	**$24.41**
California 4b (Cheese Milk)	$18.69
California Overbase	$20.83

Prices reflect Federal Order minimum blend prices for city shown.

JUL '14 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,214
Appalachian (Charlotte)	424
Southeast (Atlanta)	396
Florida (Tampa)	214
Mideast (Cleveland)	1,420
Upper Midwest (Chicago)	2,937
Central (Kansas City)	1,263
Southwest (Dallas)	1,083
Arizona (Phoenix)	390
Pacific Northwest (Seattle)	744
ALL FMMO MARKET TOTAL	**11,085**

Total Grade A milk volume sold under FMMO during month.

JUL '14 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$28.61
Appalachian (Charlotte)	$28.42
Southeast (Atlanta)	$28.84
Florida (Tampa)	$30.31
Mideast (Cleveland)	$27.33
Upper Midwest (Chicago)	$25.66
Central (Kansas City)	$26.80
Southwest (Dallas)	$27.42
Arizona (Phoenix)	$26.49
Pacific Northwest (Seattle)	$26.19
ALL FMMO MARKET AVERAGE	**$27.61**
California 4b (Cheese Milk)	$21.88
California Overbase	$24.07

Prices reflect FMMO minimum prices at Jersey component values.

JUL '14 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$28.77
Appalachian (Charlotte) (includes protein prem.)	$28.65
Southeast (Atlanta)	$28.84
Florida (Tampa)	$30.31
Mideast (Cleveland) (includes protein premium)	$27.79
Upper Midwest (Chicago) (includes cy premium)	$25.84
Central (Kansas City)	$26.80
Southwest (Dallas)	$27.42
Arizona (Phoenix) (includes protein)	$26.68
Pacific Northwest (Seattle)	$26.19
ALL FMMO MARKET AVERAGE	**$27.73**
California 4b (Includes CY Premium)	$22.74
California Overbase	$24.93

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

JUL '14 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.02
Appalachian (Charlotte)	$2.70
Southeast (Atlanta)	$2.41
Florida (Tampa)	$2.36
Mideast (Cleveland)	$4.31
Upper Midwest (Chicago)	$3.79
Central (Kansas City)	$3.78
Southwest (Dallas)	$3.87
Arizona (Phoenix)	$2.95
Pacific Northwest (Seattle)	$3.04
ALL FMMO MARKET AVERAGE	**$3.32**
California 4b (Includes CY Premium)	$4.04
California Overbase	$4.10

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

JUL '14 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	16.3%
Appalachian (Charlotte)	10.4%
Southeast (Atlanta)	9.1%
Florida (Tampa)	8.5%
Mideast (Cleveland)	18.4%
Upper Midwest (Chicago)	17.2%
Central (Kansas City)	16.4%
Southwest (Dallas)	16.4%
Arizona (Phoenix)	12.4%
Pacific Northwest (Seattle)	13.1%
ALL FMMO MARKET AVERAGE	**13.8%**
California 4b (Includes CY Premium)	21.6%
California Overbase	19.7%

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

ESTIMATED JERSEY MILK COMPOSITION	Jul-14
Butterfat	4.48
TRUE Protein	3.48
Other Solids	5.73
Solids Not Fat (SNF)	9.21
Cheese Yield (90% Fat Recovery, 38% Moisture)	11.99
CME Block Cheese Price	$ 1.9870

REGULATED MILK PRICES	Jul-14
FMMO Milkfat	$ 2.6349
FMMO True Protein	$ 3.1798
FMMO Other Solids	$ 0.5046
CA 4b (Cheese Milk) Milkfat	$ 2.6836
CA 4b (Cheese Milk) SNF	$ 1.0692
CA Overbase Milkfat	$ 2.5930
CA Overbase SNF	$ 1.3510

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT	Jul-14
FMMO Milkfat Adjustment	$2.36
FMMO True Protein Adjustment	$1.44
FMMO Other Solids Adjustment	($0.01)
CA 4b (Cheese Milk) Milkfat	$2.63
CA 4b (Cheese Milk) SNF	$0.57
CA Overbase Milkfat	$2.54
CA Overbase SNF	$0.69

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NAJ Milk & Component Outlook - *2014 Prices through July*

2014 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$24.70
Appalachian (Charlotte)	$25.83
Southeast (Atlanta)	$26.30
Florida (Tampa)	$27.93
Mideast (Cleveland)	$23.60
Upper Midwest (Chicago)	$22.75
Central (Kansas City)	$23.22
Southwest (Dallas)	$23.93
Arizona (Phoenix)	$23.71
Pacific Northwest (Seattle)	$23.24
ALL FMMO MARKET AVERAGE	**$24.52**
California 4b (Cheese Milk)	$20.30
California Overbase	$21.47

Prices reflect Federal Order minimum blend prices for city shown.

2014 MILK VOLUME (Million #)

Northeast (Boston)	17,320
Appalachian (Charlotte)	3,748
Southeast (Atlanta)	3,618
Florida (Tampa)	1,849
Mideast (Cleveland)	11,294
Upper Midwest (Chicago)	22,400
Central (Kansas City)	10,237
Southwest (Dallas)	8,343
Arizona (Phoenix)	3,312
Pacific Northwest (Seattle)	5,512
ALL FMMO MARKET TOTAL	**87,633**

Total Grade A milk volume sold under FMMO.

2014 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$28.55
Appalachian (Charlotte)	$27.78
Southeast (Atlanta)	$28.23
Florida (Tampa)	$30.02
Mideast (Cleveland)	$27.53
Upper Midwest (Chicago)	$26.57
Central (Kansas City)	$26.89
Southwest (Dallas)	$27.76
Arizona (Phoenix)	$26.12
Pacific Northwest (Seattle)	$26.50
ALL FMMO MARKET AVERAGE	**$27.59**
California 4b (Cheese Milk)	$23.66
California Overbase	$24.81

Prices reflect FMMO minimum prices at Jersey component values.

2014 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$28.76
Appalachian (Charlotte) (includes protein prem.)	$28.05
Southeast (Atlanta)	$28.23
Florida (Tampa)	$30.02
Mideast (Cleveland) (includes protein premium)	$28.09
Upper Midwest (Chicago) (includes cy premium)	$26.79
Central (Kansas City)	$26.89
Southwest (Dallas)	$27.76
Arizona (Phoenix) (includes protein)	$26.37
Pacific Northwest (Seattle)	$26.50
ALL FMMO MARKET AVERAGE	**$27.75**
California 4b (Includes CY Premium)	$24.68
California Overbase	$25.83

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

2014 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.17
Appalachian (Charlotte)	$2.36
Southeast (Atlanta)	$2.09
Florida (Tampa)	$2.19
Mideast (Cleveland)	$4.60
Upper Midwest (Chicago)	$4.00
Central (Kansas City)	$3.75
Southwest (Dallas)	$3.86
Arizona (Phoenix)	$2.73
Pacific Northwest (Seattle)	$3.31
ALL FMMO MARKET AVERAGE	**$3.31**
California 4b (Includes CY Premium)	$4.38
California Overbase	$4.36

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

2014 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	17.0%
Appalachian (Charlotte)	9.2%
Southeast (Atlanta)	8.0%
Florida (Tampa)	7.9%
Mideast (Cleveland)	19.6%
Upper Midwest (Chicago)	17.6%
Central (Kansas City)	16.2%
Southwest (Dallas)	16.2%
Arizona (Phoenix)	11.6%
Pacific Northwest (Seattle)	14.3%
ALL FMMO MARKET AVERAGE	**13.7%**
California 4b (Includes CY Premium)	21.6%
California Overbase	20.3%

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

ESTIMATED JERSEY MILK COMPOSITION	2014
Butterfat	4.59
TRUE Protein	3.59
Other Solids	5.73
Solids Not Fat (SNF)	9.32
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.33
CME Block Cheese Price	$2.1531

REGULATED MILK PRICES	2014
FMMO Milkfat	$2.2690
FMMO True Protein	$3.9557
FMMO Other Solids	$0.4769
CA 4b (Cheese Milk) Milkfat	$2.2608
CA 4b (Cheese Milk) SNF	$1.4240
CA Overbase Milkfat	$2.1447
CA Overbase SNF	$1.6049

AVERAGE JERSEY PRICE ADJUSTMENT PER CW	2014
FMMO Milkfat Adjustment	$2.09
FMMO True Protein Adjustment	$1.85
FMMO Other Solids Adjustment	($0.00)
CA 4b (Cheese Milk) Milkfat	$2.47
CA 4b (Cheese Milk) SNF	$0.91
CA Overbase Milkfat	$2.35
CA Overbase SNF	$1.00

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