

## The Odds Are In Your Favor

If you knew the outcome of the Kentucky Derby would you place a bet? Placing that bet would be a simple guaranteed source of income. That is the situation dairy producers have with the new Dairy Margin Coverage (DMC) program. The 2018 Farm Bill revamped the previous, unfavorable, Margin Protection Program (MPP) that was introduced in the 2014 Farm Bill.

How the previous MPP and DMC programs work is the same; using the monthly national prices released in the USDA Agricultural Prices report for a bushel of corn, a ton of soybean meal, and a ton of alfalfa hay to configure the feed cost to produce 100 pounds of milk. This figure is then subtracted from the all milk price to give the income over feed cost (IOFC) margin. This IOFC margin is what the two programs insure.

### The Previous Margin Protection Program

The high cost of premiums and infrequent payouts of MPP left many producers unhappy with the program. The Bipartisan Budget Act of 2018 made significant changes to the program, dropping the premium and covering more historical production under tier 1, however the previous negativity towards the program remained.

### Dairy Margin Coverage

One of the oldest strategies in the marketing and political playbook is that when a program has not been favorable it is rebranded. The 2018 Farm Bill brought the new Dairy Margin Coverage program. Under DMC the IOFC margin can now be protected up to \$9.50 for \$0.15/cwt. for the first 5 million pounds of historical production. Simply put a dairy could pay \$0.15/cwt. to guarantee a margin of \$9.50 after feed costs are paid (under national average prices). Not a bad deal right? What if the outcome for the first four months of the year were already known? Even better, right?

With the 2018-2019 government

shutdown many of the USDA programs were put on hold. Therefore, enrollment into the new DMC program was not available until June 17, 2019. Dairies that choose to enroll in the program will be able to retroactively enroll from January 2019. The DMC program now includes higher quality alfalfa hay into the feed cost formula which will raise the average feed cost and lower the margin for each month, which will trigger more payouts.

Margin	First Five Million Pounds	Over Five Million Pounds
\$ 4.000	\$ —	\$ —
\$ 4.500	\$ 0.0025	\$ 0.025
\$ 5.000	\$ 0.005	\$ 0.005
\$ 5.500	\$ 0.030	\$ 0.100
\$ 6.000	\$ 0.050	\$ 0.310
\$ 6.500	\$ 0.070	\$ 0.650
\$ 7.000	\$ 0.080	\$ 1.107
\$ 7.500	\$ 0.090	\$ 1.413
\$ 8.000	\$ 0.100	\$ 1.813
\$ 8.500	\$ 0.105	\$ —
\$ 9.000	\$ 0.110	\$ —
\$ 9.500	\$ 0.150	\$ —

The January through April 2019 IOFC margins have been reported at \$7.71, \$7.91, \$8.66, and \$8.82, respectively. At the \$9.50 coverage level this will create a payout to the producer of \$1.79/cwt., \$1.59/cwt, \$0.84/cwt., and \$0.68/cwt. for the first four months of 2019. As an example, let's look at a farm that has an annual yearly production of 5 million pounds, roughly 250 Jerseys. By selecting to cover 95% of their production at \$9.50 IOFC they would pay a \$7,225 premium to enroll for all of 2019. Just four months into 2019 the DMC payout totals \$19,394, a \$12,169 income

after premiums. But the deal gets better yet. If an operation selects and maintains a coverage level for the next five years the DMC program provides a 25% premium discount. This lowers the \$9.50 coverage from \$0.15 to \$0.1125/cwt. The five year total premium for the example dairy, including the \$100 annual program fee will cost \$27,215 for 95% coverage at the \$9.50 level. With what is known for the first four months of 2019, and looking out into the rest of the year, every operation should give serious consideration to signing up for DMC.

This was a brief explanation of the DMC program, and more can be read at <http://bit.do/USDADMC>. A decision making tool can be found at [www.dairymarkets.org](http://www.dairymarkets.org). Enrollment began June 17. Contact your local Farm Service Agency office to learn more and enroll in the program. (<https://www.farmers.gov/service-locator> to find your local office) or NAJ contact Drew Duncan, 614/322-4462 or email [dduncan@usjersey.com](mailto:dduncan@usjersey.com)



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