



## Reduce Your Risk

Insurance can be defined as an arrangement by which a company or government agency provides a guarantee of compensation for specified loss or damage in return for payment of a premium. Given what has happened to dairy product and milk prices since mid-March, insuring milk revenue and/or margins may become as essential to managing a dairy as obtaining and maintaining a Grade A license.

To say dairy markets have been volatile so far this year would be an understatement. 'Violent' may be a more apt description. The Chicago Mercantile Exchange (CME) holds an open auction every business day for five basic commodities: cheddar cheese (40 pound blocks and 500 pound barrels), butter, nonfat dry milk and dry whey. Manufacturers with products meeting CME specifications can offer them for sale through an open bid process. Likewise, users of these commodities can buy product through the daily CME auction. The CME prices serve as benchmark prices for manufacturers and buyers of all dairy commodities engaged in private treaty contracts, including the wholesale prices of the commodities surveyed as part of the FMMO system. In short, CME prices impact wholesale commodity prices surveyed by USDA which in turn impact class and component prices paid to producers. Therefore, what happens on the CME today will affect producers' milk checks two months from now.

So, what's been happening on the CME recently? In mid-March the coronavirus pandemic caused food service orders to decline by 60% or more for four consecutive weeks. Those usual buyers did not need product, so manufacturers sold excess cheddar cheese and butter through the CME. Prices plummeted through April, with cheese bottoming out at \$1.00 per pound in late April. Butter fell to \$1.15 per pound. In response, many co-ops implemented production cutbacks for their producers. In addition, those low prices made the U.S. the world's low-cost option, and exporters began booking sales. The government also announced large scale purchases to

aid food pantries and other nutrition programs.

The resulting combination of lower production and increased demand led to CME prices rebounding dramatically. By late May, block cheese topped \$2.00 per pound and a month later was over \$2.80. Butter topped \$1.80 per pound. The stunning gyrations in CME prices has been and will be reflected in FMMO prices. The Class III prices for April and May were \$13.07/cwt. and \$12.14/cwt., respectively. Class IV prices were \$11.40/cwt. and \$10.67/cwt. But now that CME prices have turned higher, Class III prices will follow suit. Class III for June and July project to be in the range of \$20.00 to \$22.00/cwt.

So, what are producers to do? Six months ago no one associated with milk marketing would have predicted cheese prices bottoming out at \$1.00/lb. nor setting a record over \$2.80/lb., let alone those two events happening within three months of each other. How can producers guard against severe price declines while leaving themselves the opportunity to benefit from high prices?

Two insurance products can help. Dairy Margin Coverage (DMC), available through USDA's Farm Service Agency (FSA), provides indemnity payments when national income over feed costs margins fall below levels selected by the producer. DMC enrollment for 2021 begins October 12 and continues through December 11. Dairy Revenue Protection (DRP) was developed in conjunction with USDA's Risk Management Agency's Federal Crop Insurance Corporation. DRP is an area-based revenue product designed to insure against unexpected declines in the quarterly revenue from milk sales relative to a guaranteed coverage level. DRP is available through agents selling on behalf of an approved insurance provider. An attractive feature of both DMC and DRP is that USDA subsidizes the premiums.

Producers carry insurance for their property, health, life and even liability. This year's milk markets are driving home the point that a primary source of income, milk revenue, also needs to be insured.



*THE JERSEY by Bonnie L. Mohr, commissioned by the American Jersey Cattle Association.  
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