



“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	+0.38	-0.19	-0.51	-0.31	-0.16	-0.18	-0.16	-0.18	-0.07	-0.15	-0.01	-0.00

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. We attended an informational meeting and have the following updates. The margin calculated by the program is supposed to replicate the average milk and feed cost for a cow in the USA which produces 23,000#s of milk per year. The feed cost includes costs for dry cows and replacement stock. If a dairy was expanding during 2013/2014 the dairy can only use the production history from 2013. We have again highlighted some of the key features of the MPP on page 2 of this newsletter. ***One of the key considerations of the MPP is that it is a generic program that has the same rules, premium rates and “margin calculations” for all dairy farms across the United States, even though each dairy farm will have their own unique actual milk revenue and feed costs per cwt.***

Market News

Milk: The final Aug '14 announced Class III price was \$22.25 per cwt. – up \$.65 from July and \$4.34 from Aug '13. The final Aug '14 Class IV price was \$23.89 per cwt. up \$.11 from July, and up \$4.82 per cwt. from Aug '13.

Market News (Continued)

Grains/Feedstuffs/Cattle/Poultry:

This week we will concentrate on significant price changes that have/will impact soybean meal, soybeans and all soy products through the rest of the old crop season and into the early part of the new crop season. Basis levels have SKYROCKETED! We are seeing basis levels of over \$200 a ton (cash prices of over \$650 a ton) on soybean meal and it has pulled other related feedstuff prices up as well. While this may only be a short-term situation, you may want to consider adjusting rations to partially or completely replace these expensive feedstuffs over the next few months.

**Prospective Customers - Call
Curtis Gerrits for your Free
Demo Today!**

MARGINSMART® Insight

**MARGINSMART® CALCULATES YOUR DAIRY'S
EXACT MARGINS AND PROFITABILITY SO THAT YOU
CAN MAKE INFORMED DECISIONS!**

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Market Update (As of 9/5/2014 Close)

	Sep '14	+/-*	Oct '14	+/-*	Nov '14	+/-*	Dec '14	+/-*	Jan '15	+/-*	Feb '15	+/-*	Mar '15	+/-*
Class III Milk	24.28	+0.33	22.67	-0.20	20.49	-0.51	19.47	-0.33	18.45	-0.15	18.01	-0.20	17.89	-0.21
Class IV Milk	23.14	+0.14	22.20	+0.20	20.05	-0.15	18.49	-0.14	17.99	-0.31	17.61	-0.39	17.61	-0.22
Corn	3.46	-0.13					3.56	-0.09					3.69	-0.09
Soybeans	10.85	-0.04			10.21	-0.03			10.28	-0.04			10.35	-0.05
Soybean Meal	436	-4	357	-6			349	-2	346	-2			342	-3

*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 st 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 ½ at registration 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

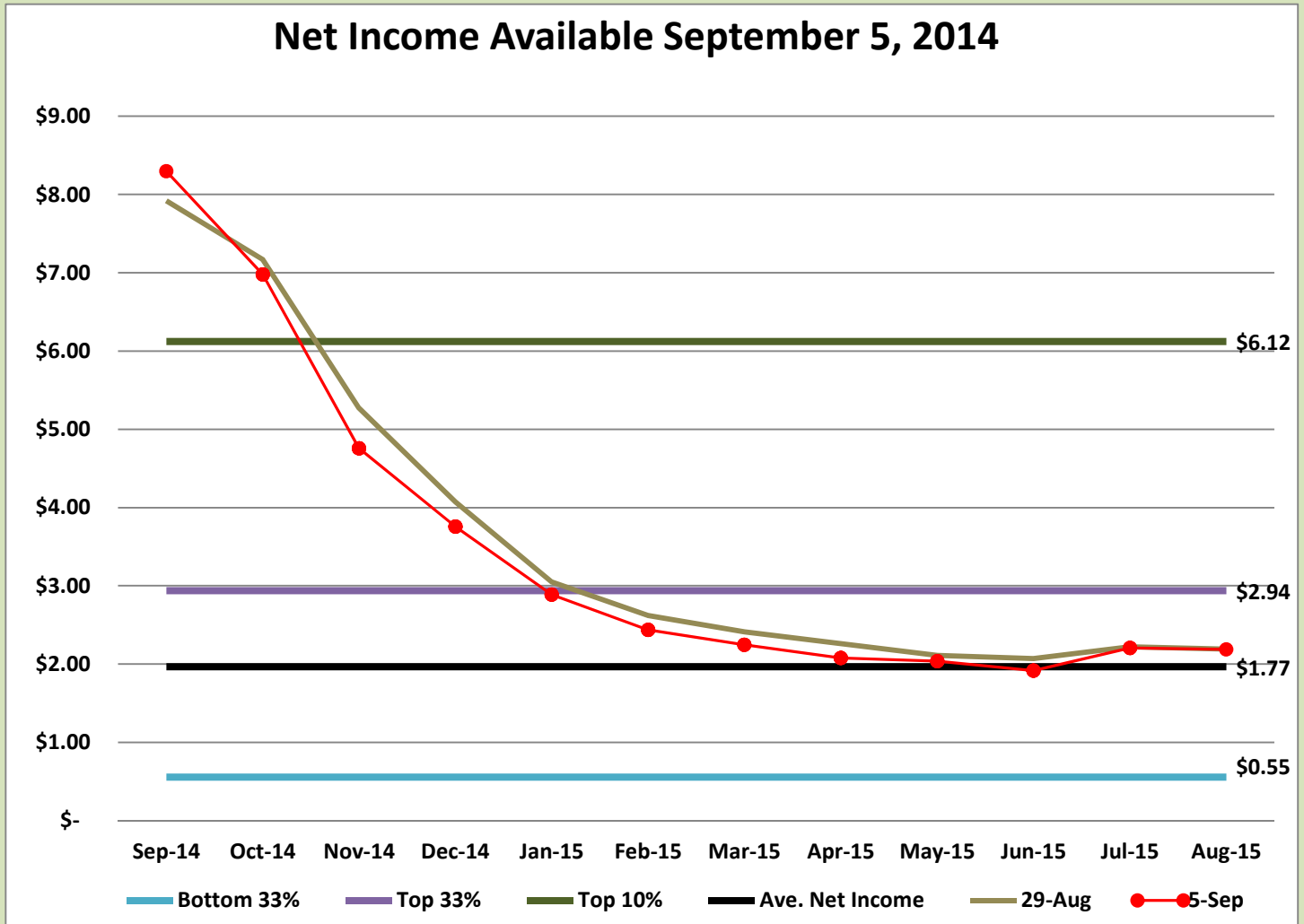
CONTRACT MODIFICATIONS:

- 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.

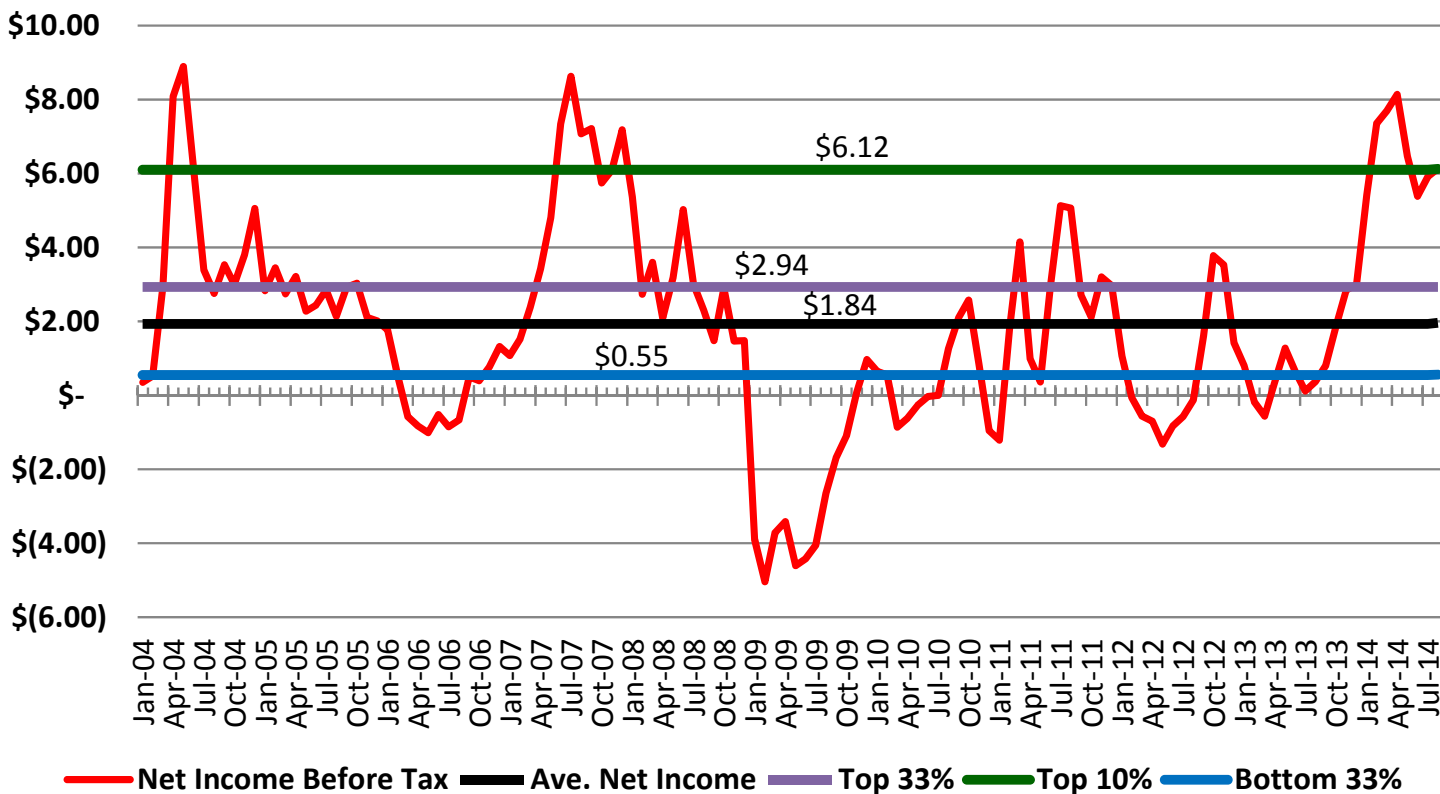
Net Income Available September 5, 2014





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		