



# 2021 Price Outlook & Dairy Risk Management Tools

Wednesday, December 2, 2020



2107 Wilson Blvd., Suite 600, Arlington, VA 22201 | 703-243-6111 | [www.nmpf.org](http://www.nmpf.org)

*Connecting Cows, Cooperatives, Capitol Hill, & Consumers*



# Today's Moderator & Presenter



**Peter Vitaliano, Ph.D.**  
Vice President, Economic Policy



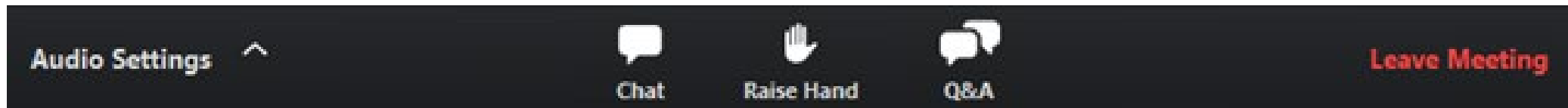
**Chris Galen**  
Senior VP, Member Services & Strategic Initiatives

# Today's Topics

- Dairy farmer government assistance in 2020
- Price and margin forecasts for 2021
- Risk management tools available for next year

# Zoom Webinar Controls

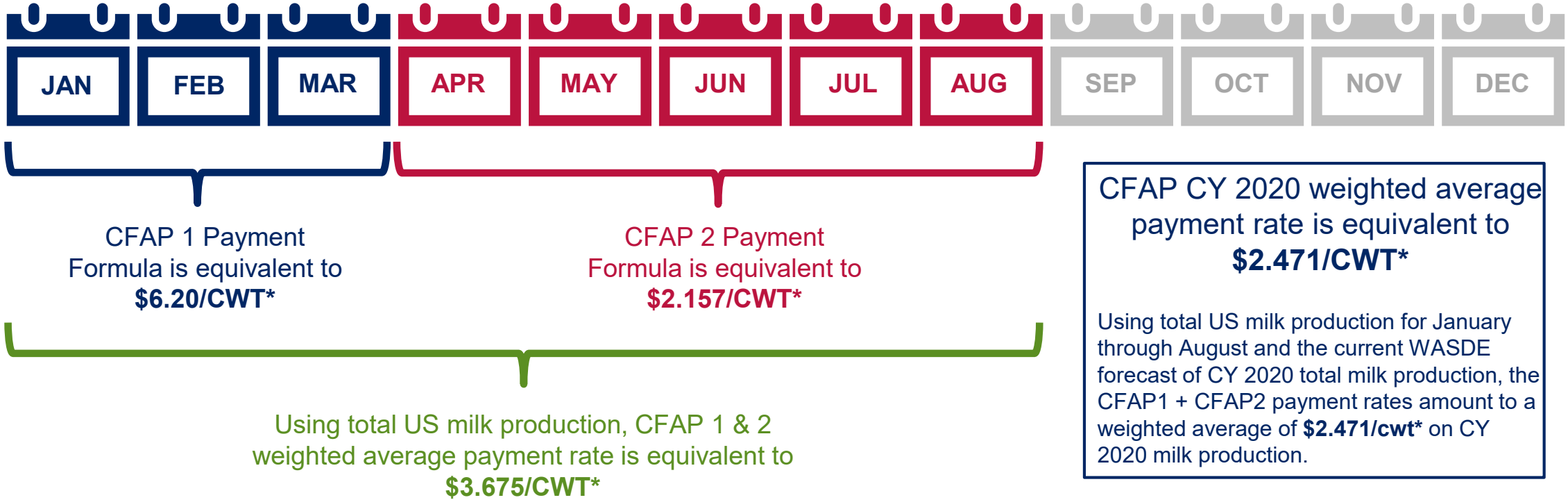
**Q&A:** Open the Q&A window, allowing you to ask questions to the host and panelists





# Government Assistance to Dairy Farmers in 2020

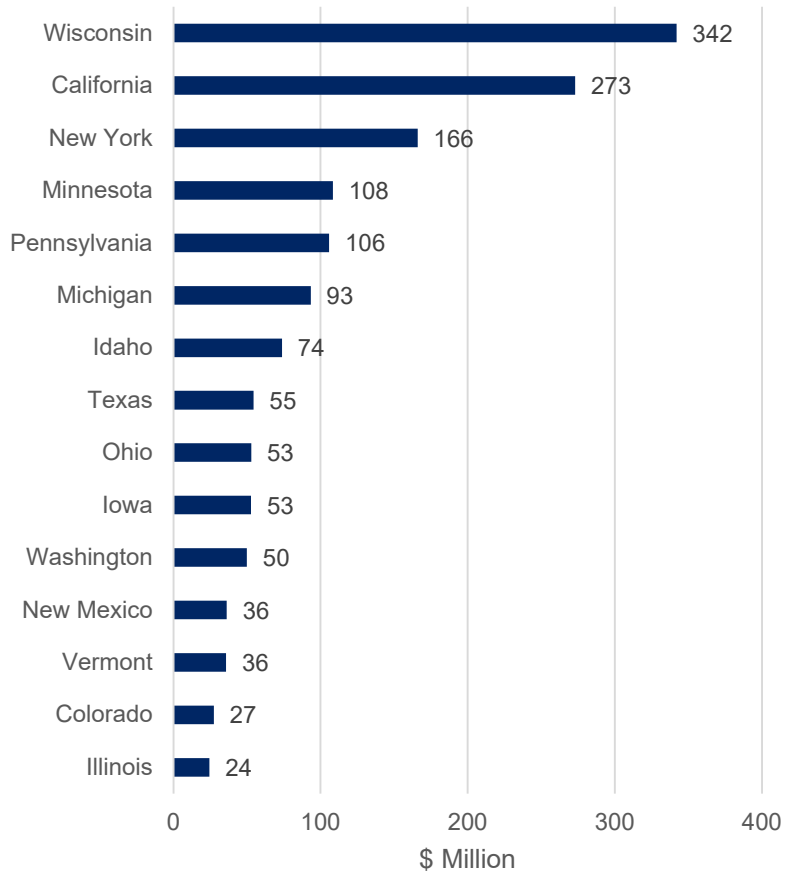
# CFAP Payments YTD in 2020



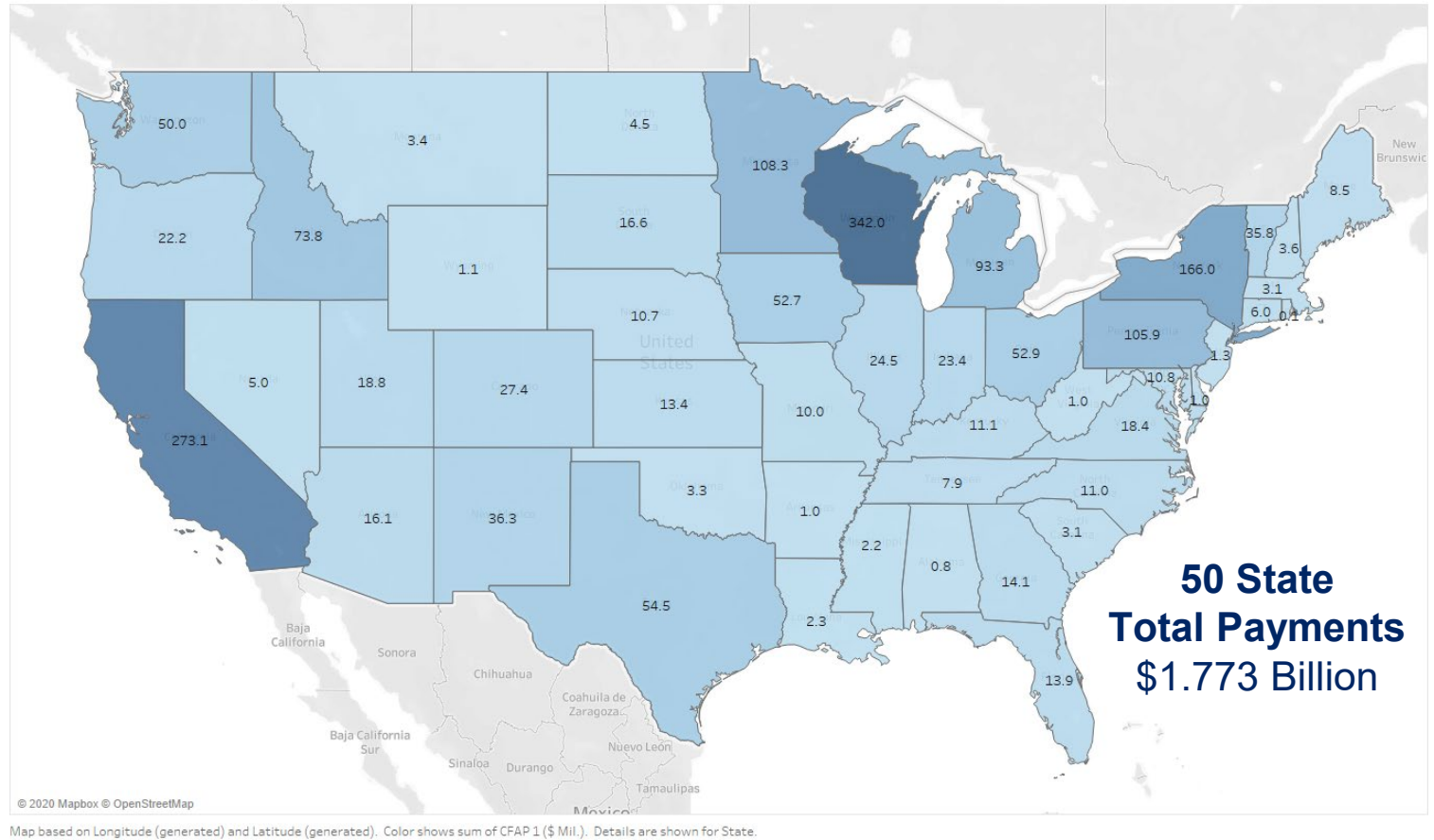
\* Subject to payment limits

# CFAP 1.0 Payments

Top 15 States by CFAP 1 Payments



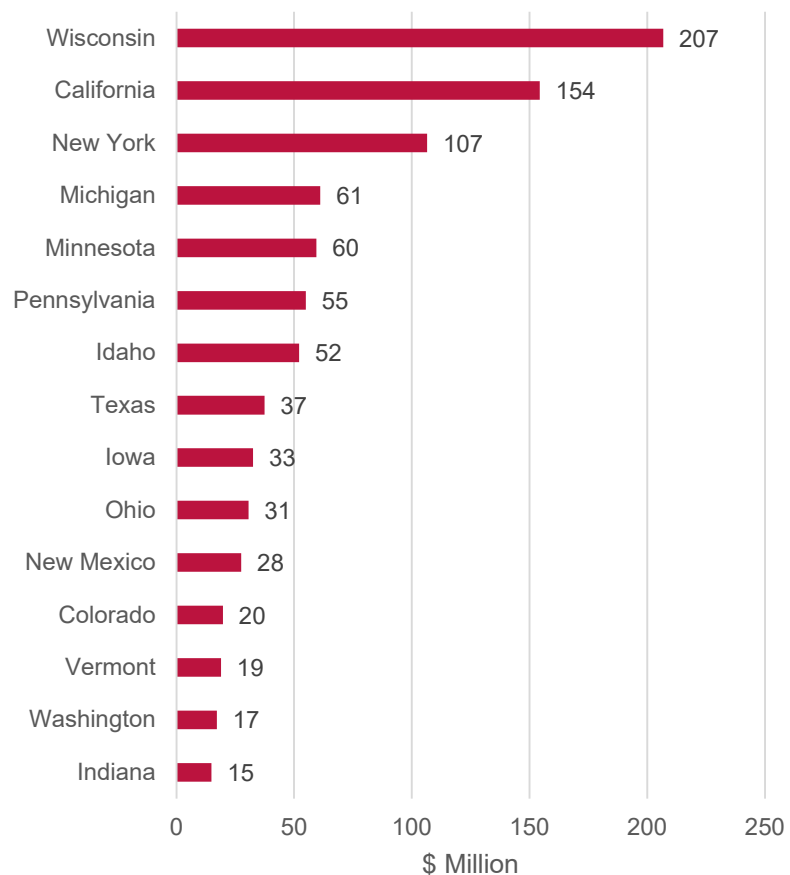
CFAP 1 Payments (\$ Mil.)



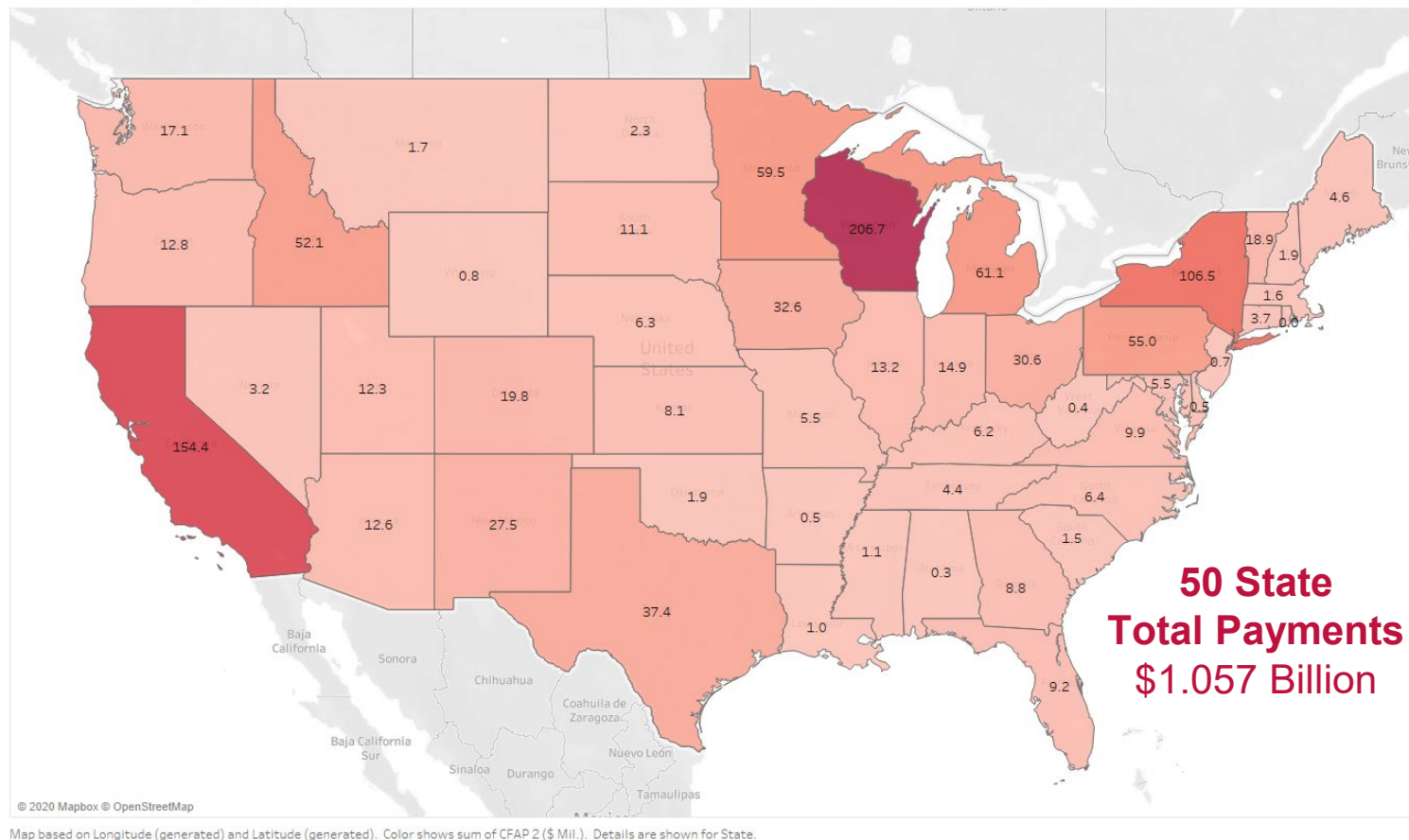


# CFAP 2.0 Payments Through Dec. 1

Top 15 States by CFAP 2 Payments



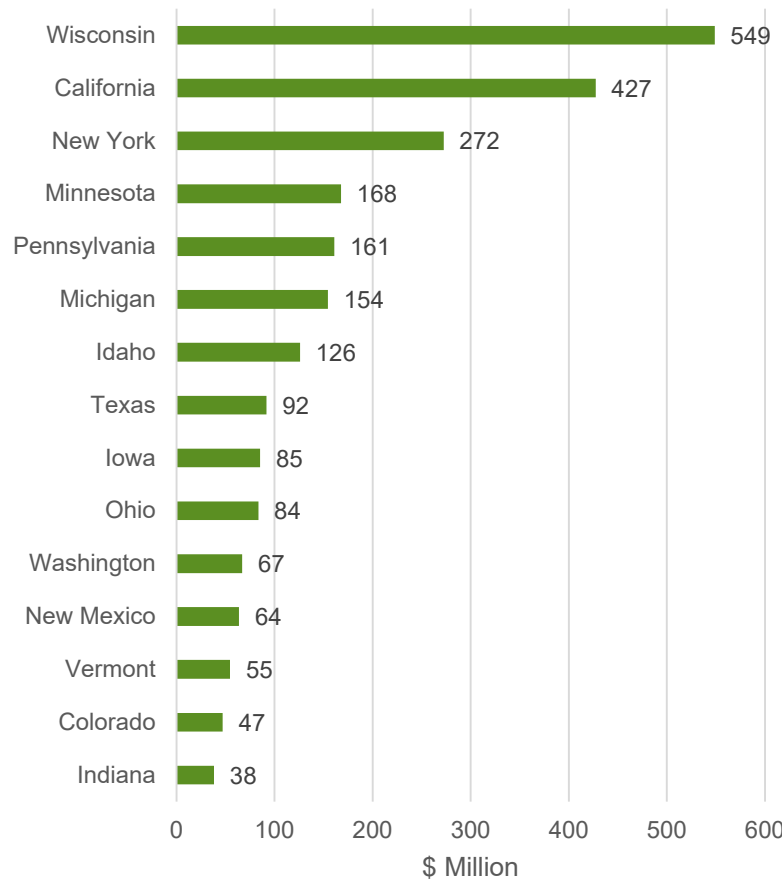
CFAP 2 Payments (\$ Mil.)



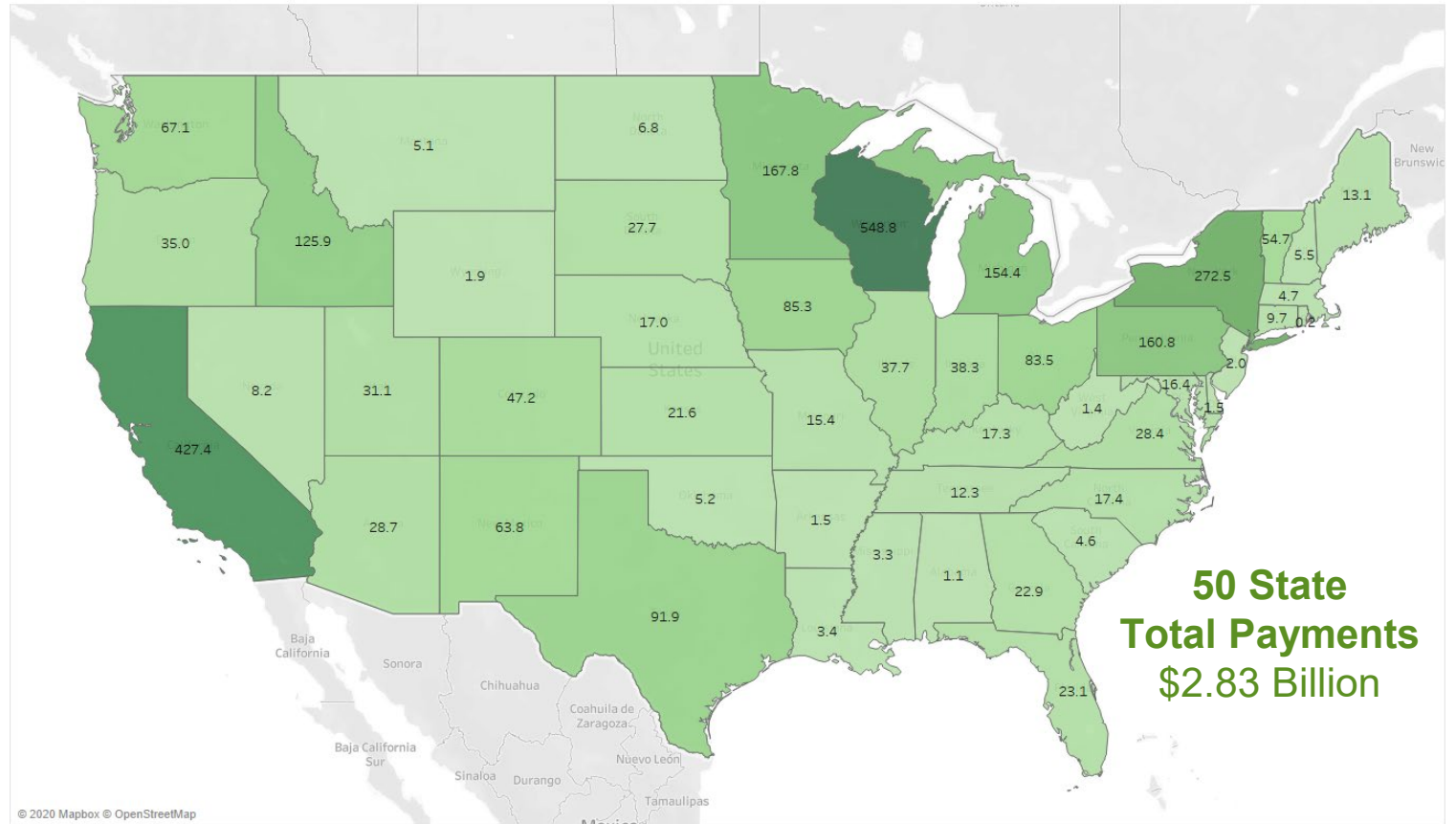


# Total CFAP 1.0 & 2.0 Payments

Top 15 States by CFAP 1 & 2 Payments



CFAP 1 & 2 Payments (\$ Mil.)



# 2020 DMC Monthly Payments

USDA Tool	Margins:	Coverage Levels									
		As of:	11/16/20	\$9.50	\$9.00	\$8.50	\$8.00	\$7.50	\$7.00	\$6.50	\$6.00
Jan-20	\$10.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Feb-20	\$10.06	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Mar-20	\$9.15	\$0.35	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Apr-20	\$6.03	\$3.47	\$2.97	\$2.47	\$1.97	\$1.47	\$0.97	\$0.47	\$0.00	\$0.00	
May-20	\$5.37	\$4.13	\$3.63	\$3.13	\$2.63	\$2.13	\$1.63	\$1.13	\$0.63	\$0.13	
Jun-20	\$9.99	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Jul-20	\$12.41	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Aug-20	\$10.83	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Sep-20	\$9.40	\$0.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Oct-20	\$11.13	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Nov-20	\$11.69	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Dec-20	\$9.94	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Averages	\$9.73	\$0.67	\$0.55	\$0.47	\$0.38	\$0.30	\$0.22	\$0.13	\$0.05	\$0.01	
Months of Payments		4	2	2	2	2	2	2	1	1	

# Total DMC Payouts by Coverage Level

DMC Payments in 2020, Based on Futures Settlement Prices\* as of: 11/30/2020

Coverage	Total Operations	Total PH (Mil. Lb.)	Total PH % Tier 1	Payments Total (Mil.\$)	Payments per Operation (\$)	Payments \$/cwt
\$9.50	9,918	29,567	100%	\$198.1	\$19,977	\$0.67
\$9.00	86	174	100%	\$1.0	\$11,093	\$0.55
\$8.50	14	31	100%	\$0.1	\$10,242	\$0.47
\$8.00	21	41	85%	\$0.2	\$7,421	\$0.38
\$7.50	9	21	95%	\$0.1	\$7,082	\$0.30
\$7.00	16	29	93%	\$0.1	\$3,933	\$0.22
\$6.50	9	20	95%	\$0.0	\$3,011	\$0.13
\$6.00	22	37	98%	\$0.0	\$871	\$0.05
\$5.50	36	68	76%	\$0.0	\$196	\$0.01
\$5.00	316	4,220	3%	\$0.0	\$0	\$0.00
\$4.50	11	36	36%	\$0.0	\$0	\$0.00
\$4.00	3,038	88,264	8%	\$0.0	\$0	\$0.00
<b>Total</b>	<b>13,496</b>	<b>122,507</b>	<b>31%</b>	<b>\$199.6</b>	<b>\$14,787</b>	<b>\$0.16</b>

\*Oct-Dec forecasts are from USDA DMC Decision Tool

# Market Impact of USDA 2020 Purchases

## USDA Dairy Product Purchases for Food Donation June - October

<b>Dairy Products</b>	<b>1.7 Billion Lbs.</b>
<b>Percent of U.S. Milk Production</b>	<b>6.5%</b>
<b>Impact on All-Milk Price</b>	<b>+\$3.35/cwt</b>
<b>Impact on Dairy Farm Income</b>	<b>+\$3.1 Billion</b>

# Total Federal Dairy Support in 2020

	Million Dollars
CFAP 1	\$1,773
CFAP 2	\$1,057
Dairy Margin Coverage (DMC)	\$200
Farmers to Families Food Box	\$1,250
Sec. 32 & Other Purchases	\$610
SBA – Paycheck Protection Program & EIDL	No Data
<b>TOTAL</b>	<b>&gt;\$4.89 Billion</b>

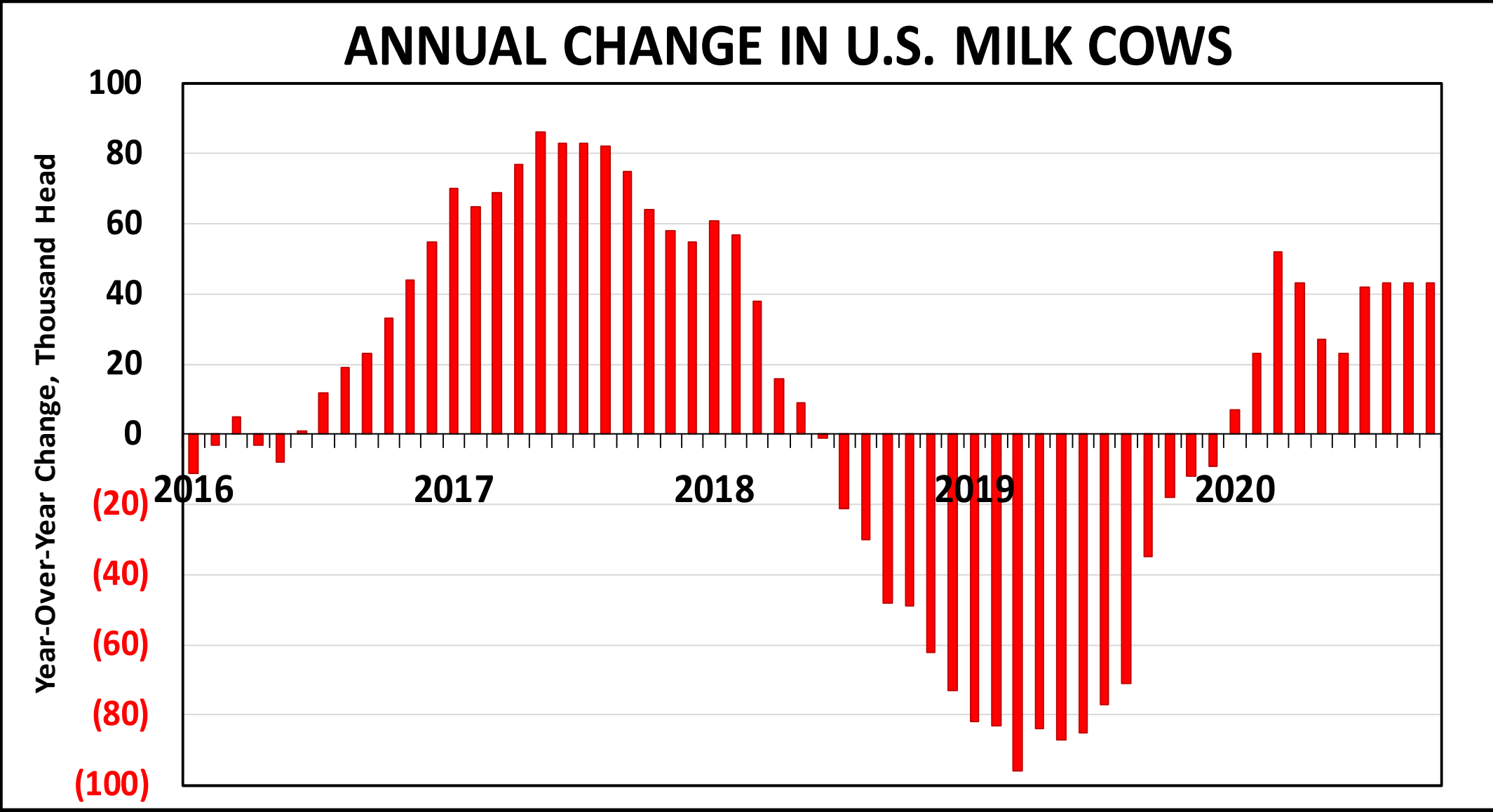


# Milk Price & Margin Outlook for 2021



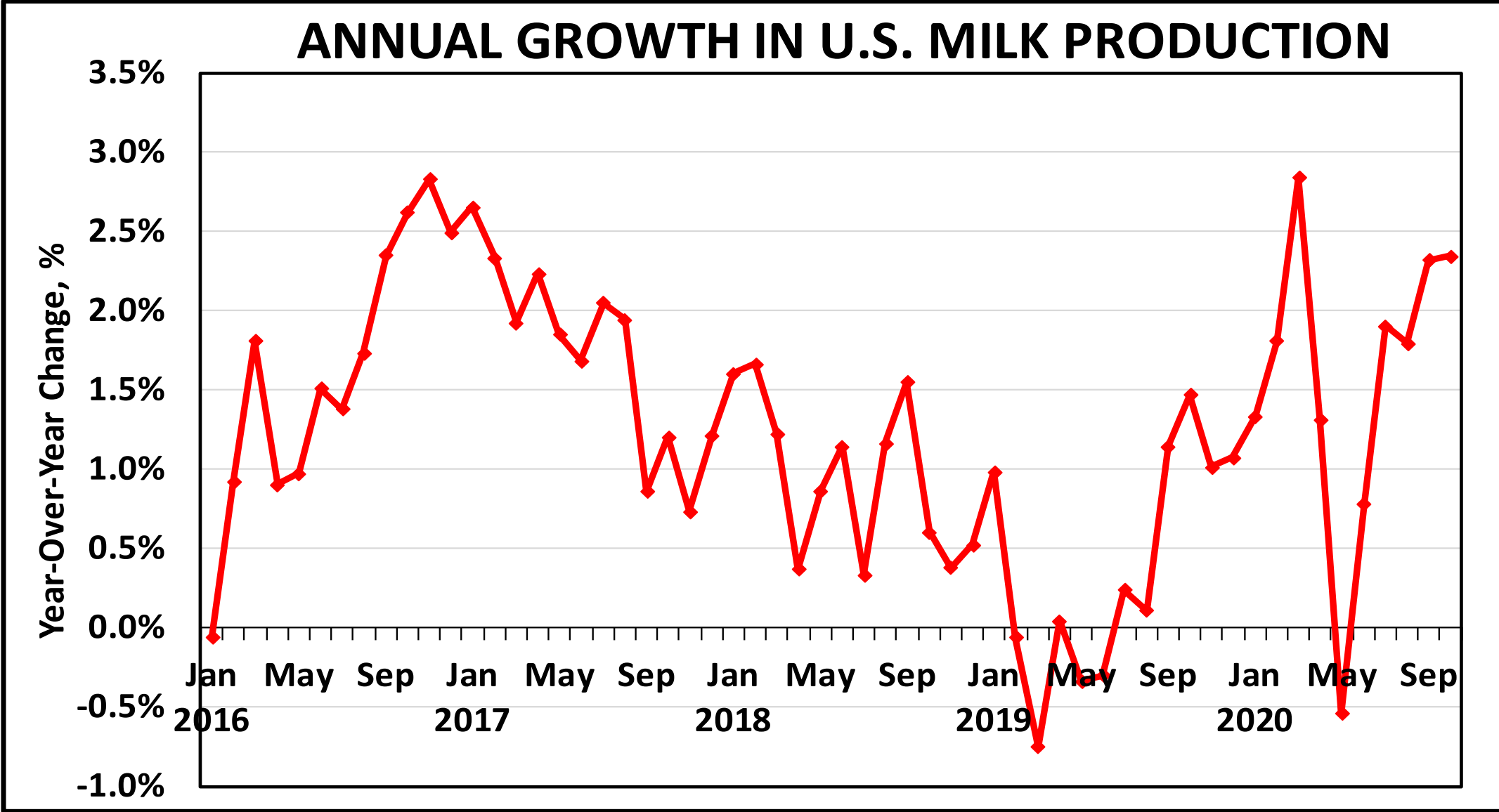
# Milk Production

## ANNUAL CHANGE IN U.S. MILK COWS

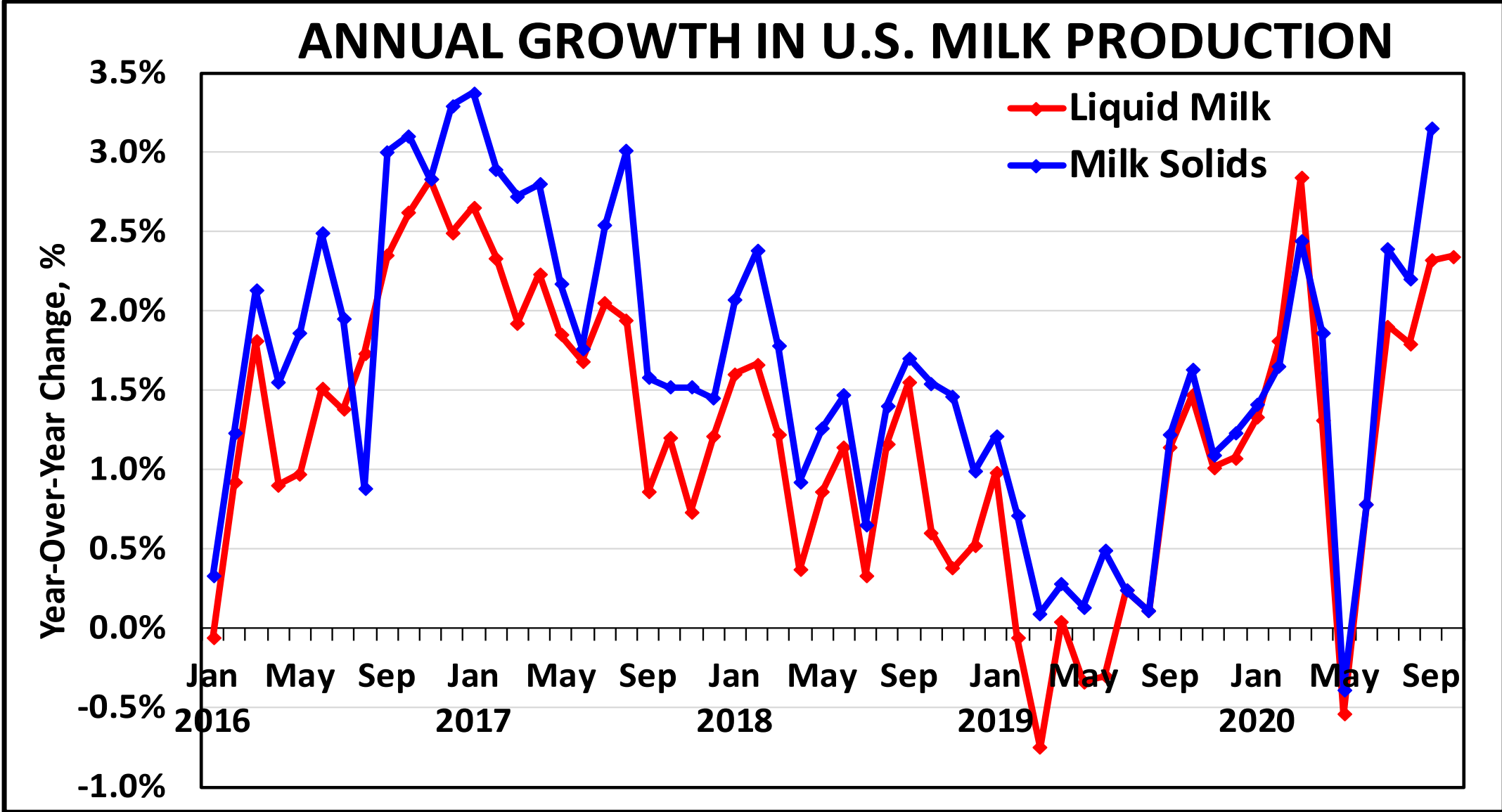


# Milk Production

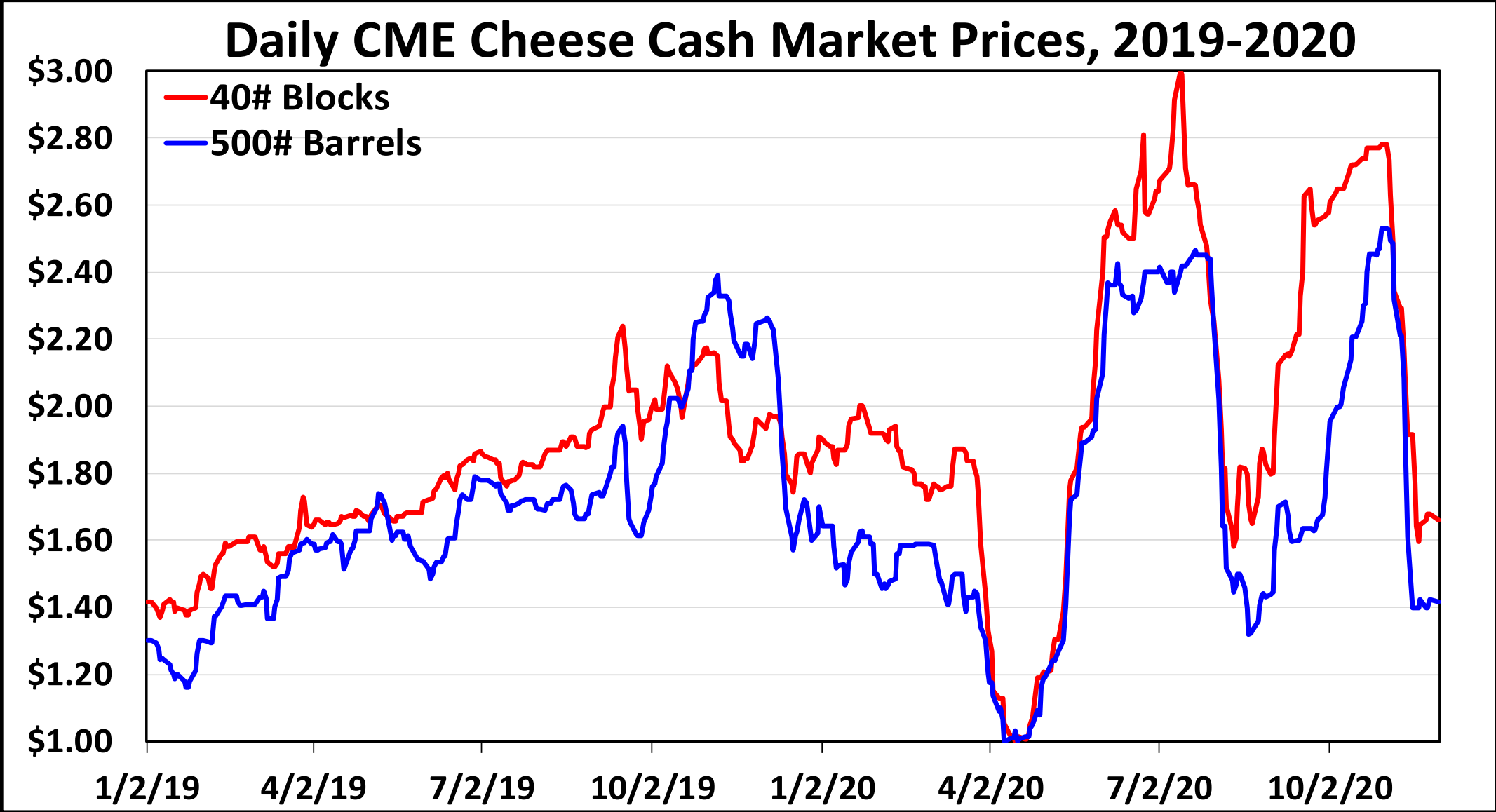
## ANNUAL GROWTH IN U.S. MILK PRODUCTION



# Milk Production

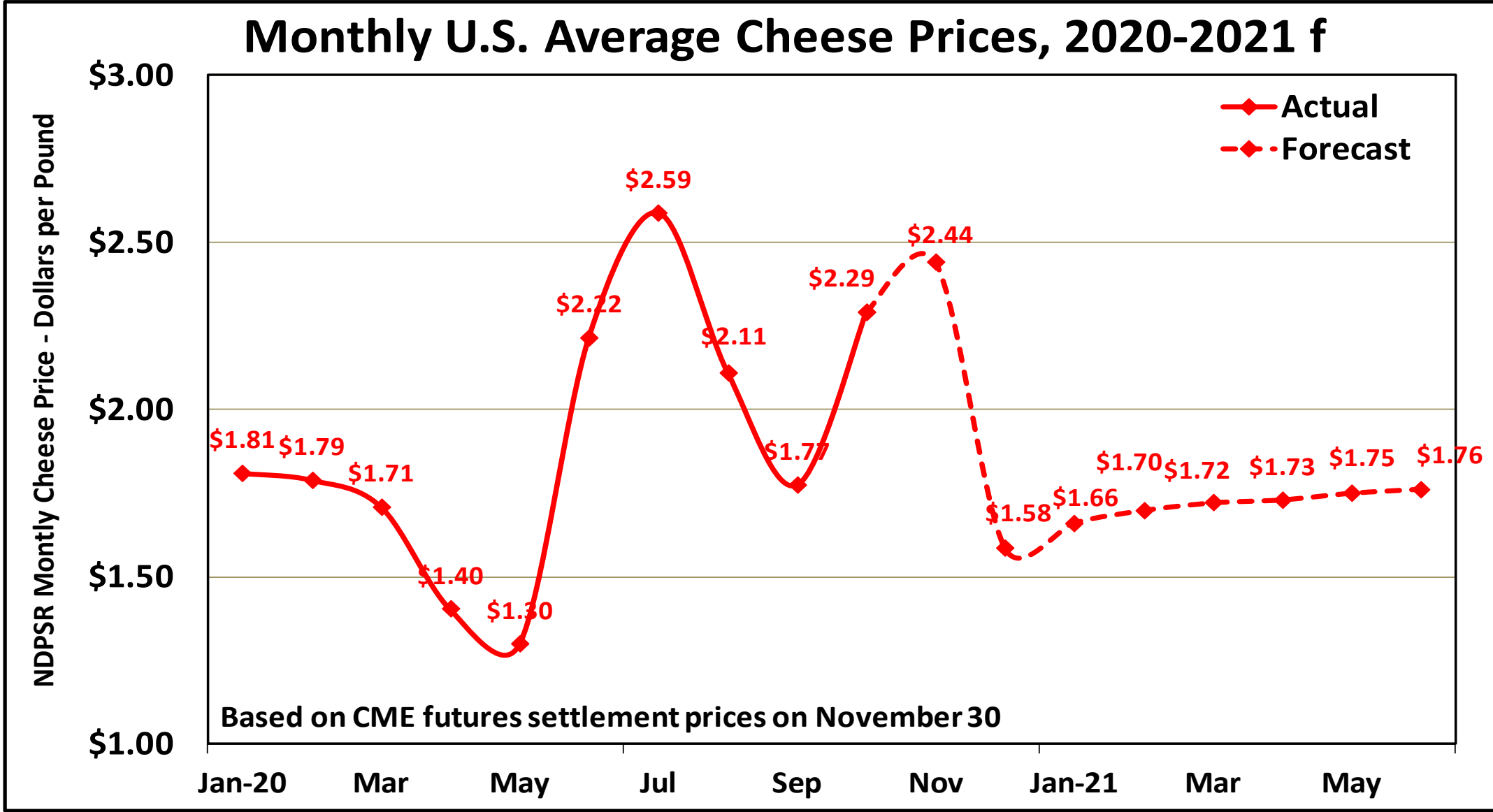


# Cheese Prices



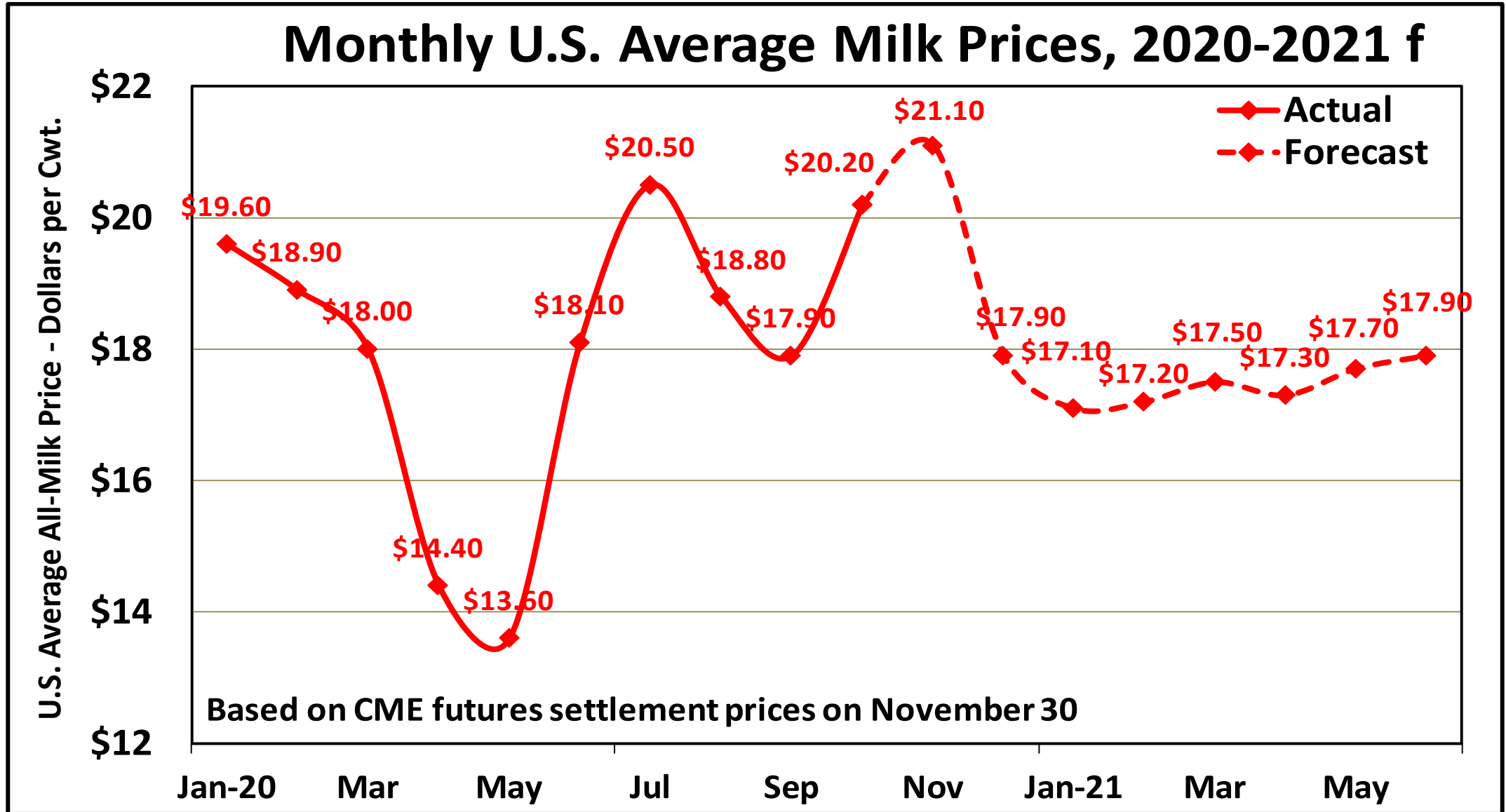
# Cheese Prices

## Monthly U.S. Average Cheese Prices, 2020-2021 f



# Milk Prices

## Monthly U.S. Average Milk Prices, 2020-2021 f



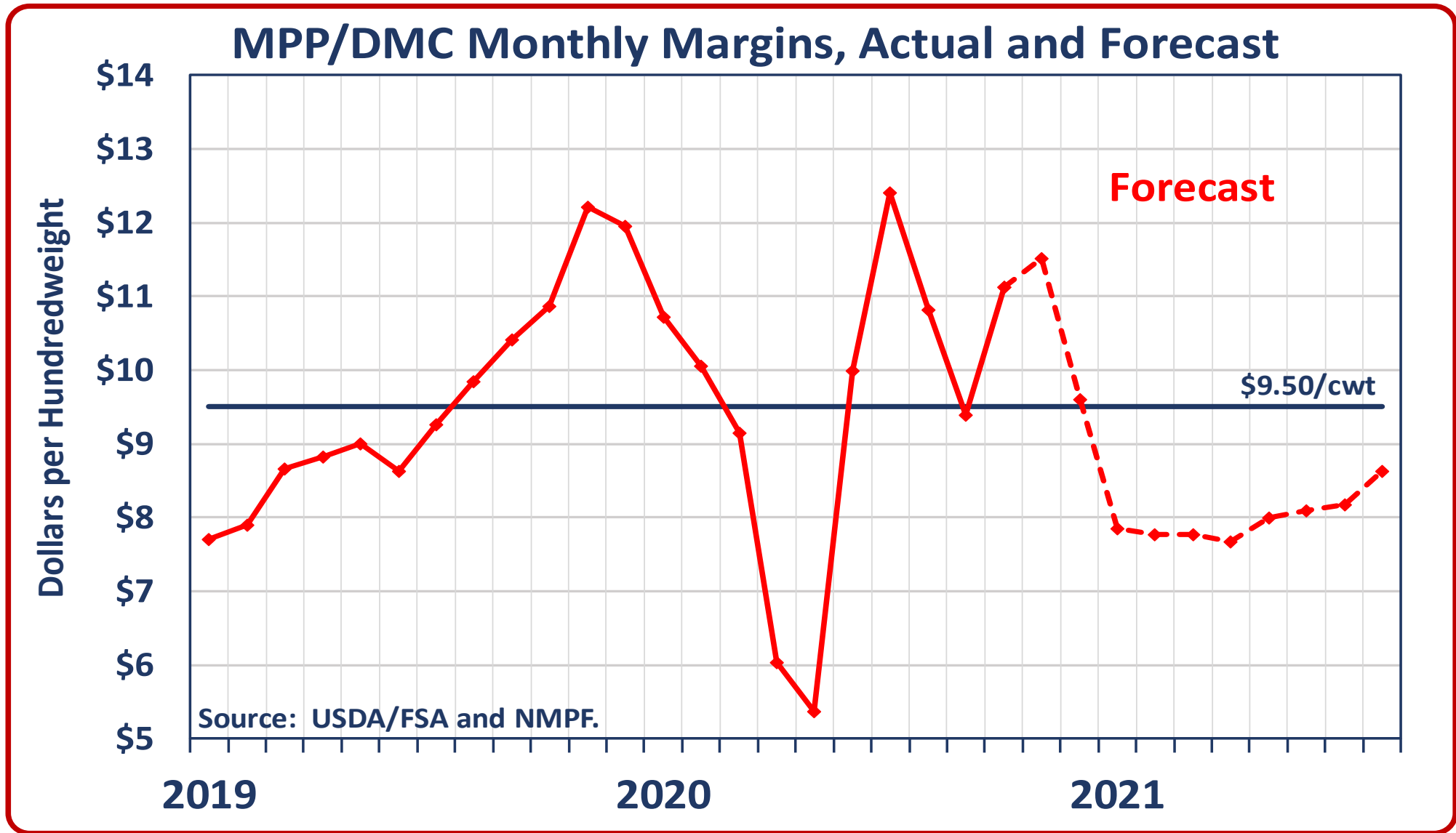


# Milk Prices

## Federal Order Producer Price Differentials

Order Area	2020 Jan	2020 Feb	2020 Mar	2020 Apr	2020 May	2020 Jun	2020 Jul	2020 Aug	2020 Sep	2020 Oct
Northeast	\$1.73	\$1.12	\$1.49	\$1.85	\$1.33	-\$5.38	-\$5.46	-\$1.75	\$0.37	-\$4.54
Upper Midwest	\$0.28	\$0.06	\$0.17	\$0.24	\$0.17	-\$3.81	-\$4.86	-\$2.06	-\$0.46	-\$4.43
Central	\$0.58	-\$0.11	\$0.15	\$0.44	\$0.10	-\$7.51	-\$8.69	-\$3.62	-\$0.72	-\$7.38
Mideast	\$0.89	\$0.27	\$0.72	\$1.15	\$0.59	-\$7.05	-\$8.02	-\$2.93	-\$0.27	-\$6.87
California	\$0.51	-\$0.12	-\$0.23	-\$0.13	-\$0.19	-\$7.91	-\$9.82	-\$5.24	-\$1.96	-\$7.73
Pacific Northwest	\$0.28	-\$0.18	-\$0.14	\$0.08	-\$0.17	-\$5.87	-\$7.43	-\$3.61	-\$1.24	-\$5.77
Southwest	\$1.22	\$0.52	\$0.87	\$1.15	\$0.87	-\$7.62	-\$8.84	-\$3.76	-\$0.60	-\$7.38
Weighted-Average	\$0.85	\$0.31	\$0.54	\$0.78	\$0.47	-\$6.31	-\$7.25	-\$3.02	-\$0.51	-\$6.08

# DMC Margin





# Risk Management Tools in 2021

# Dairy Margin Coverage Program

- **The 2018 Farm Bill authorized the Dairy Margin Coverage (DMC) program, and makes important changes in the safety net for farmers through:**
  - Improving the coverage level up to \$9.50/cwt.
  - Significantly lowering the premium rate structure
  - Slashing premiums on catastrophic coverage levels for larger producers, and
  - Eliminating the restrictions against covering milk through both the DMC program and Livestock Gross Margin (LGM) & Dairy Revenue Protection (DRP) programs
- **Farms that previously enrolled for the discounted, 5-year coverage must annually sign the CCC-801 contract, pay \$100 fee (unless waived) and certify they are marketing milk**
  - **Producers can call USDA call center at 877-508-8364**

# DMC Premiums for 2020\*

Premium Comparison Table (\$/cwt)

Tier I (First 5M Pounds)		Tier II (Over 5M Pounds)
Coverage Level	DMC Premium	DMC Premium
\$9.50	\$0.150	N/A
\$9.00	\$0.110	N/A
\$8.50	\$0.105	N/A
\$8.00	\$0.100	\$1.813
\$7.50	\$0.090	\$1.413
\$7.00	\$0.080	\$1.107
\$6.50	\$0.070	\$0.650
\$6.00	\$0.050	\$0.310
\$5.50	\$0.030	\$0.100
\$5.00	\$0.005	\$0.005
\$4.50	\$0.025	\$0.0025
\$4.00	\$0.000	\$0.000

*\* Standard rates, not reflecting now-expired discount offered to those locking in 5-year coverage*

# Expanded Flexibility

- **2018 Farm Bill allows operations to fully participate in both the DMC, Dairy Revenue Protection (DRP) and Livestock Gross Margin-Dairy (LGM) programs**
  - DMC, LGM - no restriction, same milk in both
  - DMC, DRP - no restriction, same milk in both
  - DRP, LGM - can be in both, but not same milk



# Other USDA Risk Management Programs

## ■ Livestock Gross Margin-Dairy (LGM)

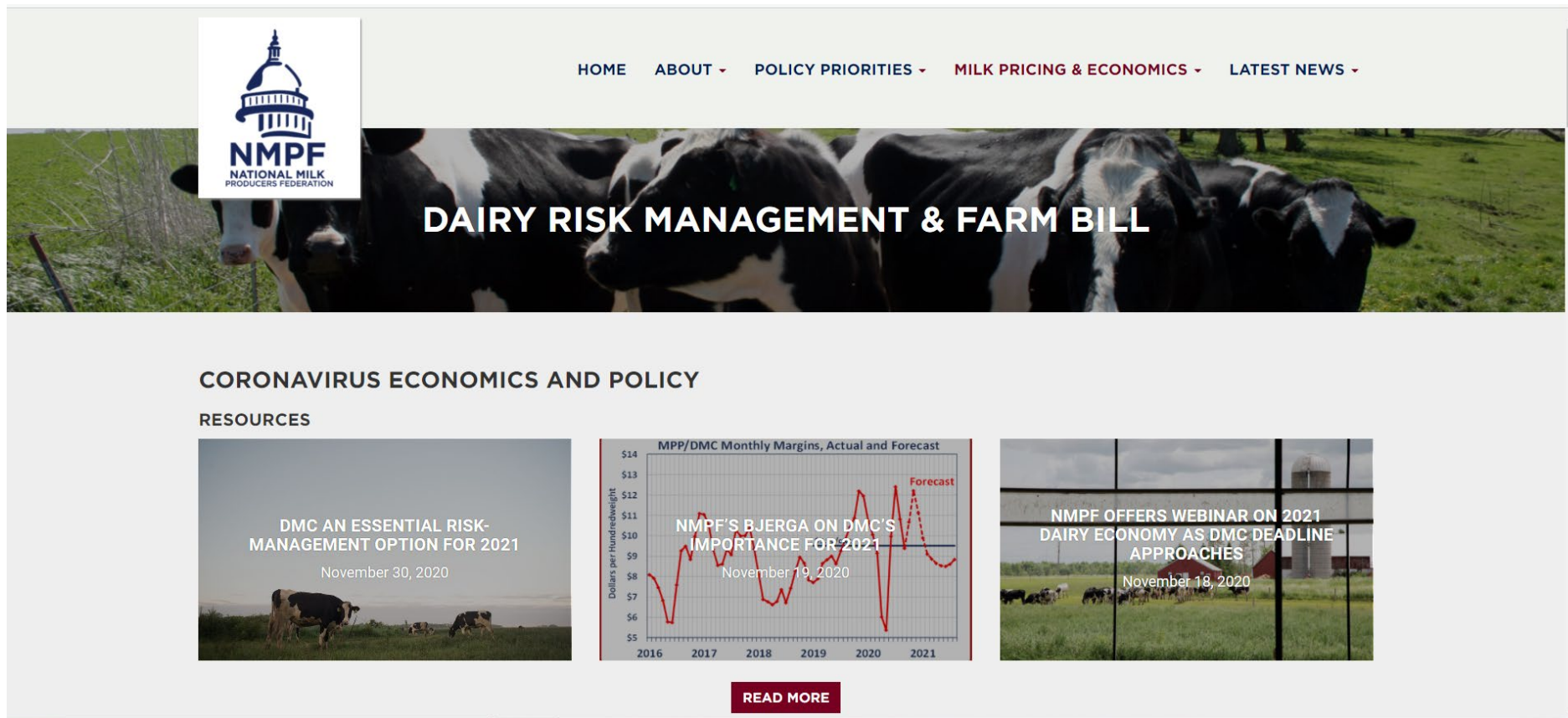
- Insures milk price – feed cost margin
- Similar to buying a call option on feed costs, to limit upside risk; plus a put option on milk price, to limit downside risk

## ■ Dairy Revenue Protection (DRP)

- Insures milk revenue, but functions mainly to insure milk price, since milk yield is measured by state/regional MPPC

# NMPF Risk Management Webpage

[www.nmpf.org/policy\\_priorities/risk-management/](http://www.nmpf.org/policy_priorities/risk-management/)



The screenshot shows the NMPF website header with the logo and navigation menu. The main banner features a photo of cows and the text "DAIRY RISK MANAGEMENT & FARM BILL". Below this is a section titled "CORONAVIRUS ECONOMICS AND POLICY RESOURCES" with three featured articles: "DMC AN ESSENTIAL RISK-MANAGEMENT OPTION FOR 2021", "NMPF'S BJERGA ON DMC'S IMPORTANCE FOR 2021", and "NMPF OFFERS WEBINAR ON 2021 DAIRY ECONOMY AS DMC DEADLINE APPROACHES". A "READ MORE" button is located at the bottom of the resources section.

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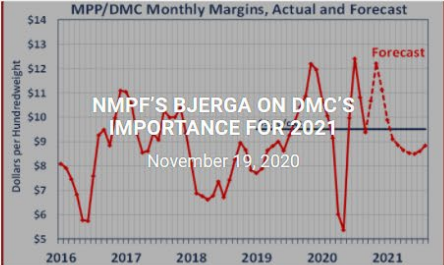
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## DAIRY RISK MANAGEMENT & FARM BILL

### CORONAVIRUS ECONOMICS AND POLICY RESOURCES

**DMC AN ESSENTIAL RISK-MANAGEMENT OPTION FOR 2021**  
November 30, 2020

**MPP/DMC Monthly Margins, Actual and Forecast**



**NMPF'S BJERGA ON DMC'S IMPORTANCE FOR 2021**  
November 19, 2020

**NMPF OFFERS WEBINAR ON 2021 DAIRY ECONOMY AS DMC DEADLINE APPROACHES**  
November 18, 2020

[READ MORE](#)



# Questions?



# 2021 Price Outlook & Dairy Risk Management Tools

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