

Dairy Revenue Protection

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Utah Milk Prices





**1st Quarter 2021
Class III \$16.44**



**Think of DRP as a Floor
of Revenue**

	Floor Price	Cost
95%	\$15.62	\$0.34
90%	\$14.80	\$0.18
85%	\$13.97	\$0.08
80%	\$13.15	\$0.03

*Statewide per cow production will impact revenue. Producers can cover between 80-95% of revenue

Key Decisions

- The value of milk of protected
- The quantity of milk production to cover
- Class or Components or Combination
- Level of coverage
 - Premium subsidies depend on coverage level

Coverage Level %	80	85	90	95
Premium Subsidy %	55	49	44	44

- Quarterly contracts
- Protection Factor

Dairy Revenue Guarantee

Price

Milk Production

Class III Milk Apr 21 (D421)
 16.33 (0.01) 0.084%
 16.33 vs 16.042
 S&P 500 VIX FIELDS for 1st Nov 2021 2021

Get the latest Class III Milk price and Class III Milk Futures quote for all active contracts below

12/14/21 16.33 16.042

Last Future price quotes as of Fri, Nov 20, 2021

Contract	Last	Change	Open	High	Low	Previous	Volume	Open Int	Time	Links
• D400 Nov 20	23.75	+0.01	23.71	23.75	23.69	23.72	101	5,523	13:23:07	F
• D420 Dec 20	16.01	+0.02	15.99	16.03	15.95	15.99	947	5,638	13:45:07	F
• D421 Jan 21	16.08	+0.07	16.25	16.70	16.10	16.21	823	3,201	13:52:07	F
• D422 Feb 21	16.70	+0.01	16.50	16.70	16.30	16.70	100	1,802	13:21:07	F
• D423 Mar 21	16.38	+0.05	16.40	16.50	16.40	16.30	117	3,805	13:21:07	F
• D424 Apr 21	16.25	+0.01	16.40	16.70	16.40	16.34	89	1,177	12:01:07	F
• D425 May 21	16.75	+0.07	16.38	16.75	16.38	16.84	37	1,194	13:12:07	F
• D426 Jun 21	16.75	+0.04	16.75	16.75	16.68	16.75	30	1,125	12:54:07	F
• D427 Jul 21	16.94	+0.06	16.82	16.94	16.89	16.88	16	409	12:58:07	F
• D428 Aug 21	16.94	+0.12	16.87	16.99	16.84	16.82	21	382	13:02:07	F
• D429 Sep 21	17.10	+0.06	17.04	17.10	17.01	17.04	21	417	13:09:07	F



%
Coverage

\$15.93 × 1,000,000 pounds × 95% = \$151,335

Actual Milk Revenue



1,000,000



USDA
Announced
Prices

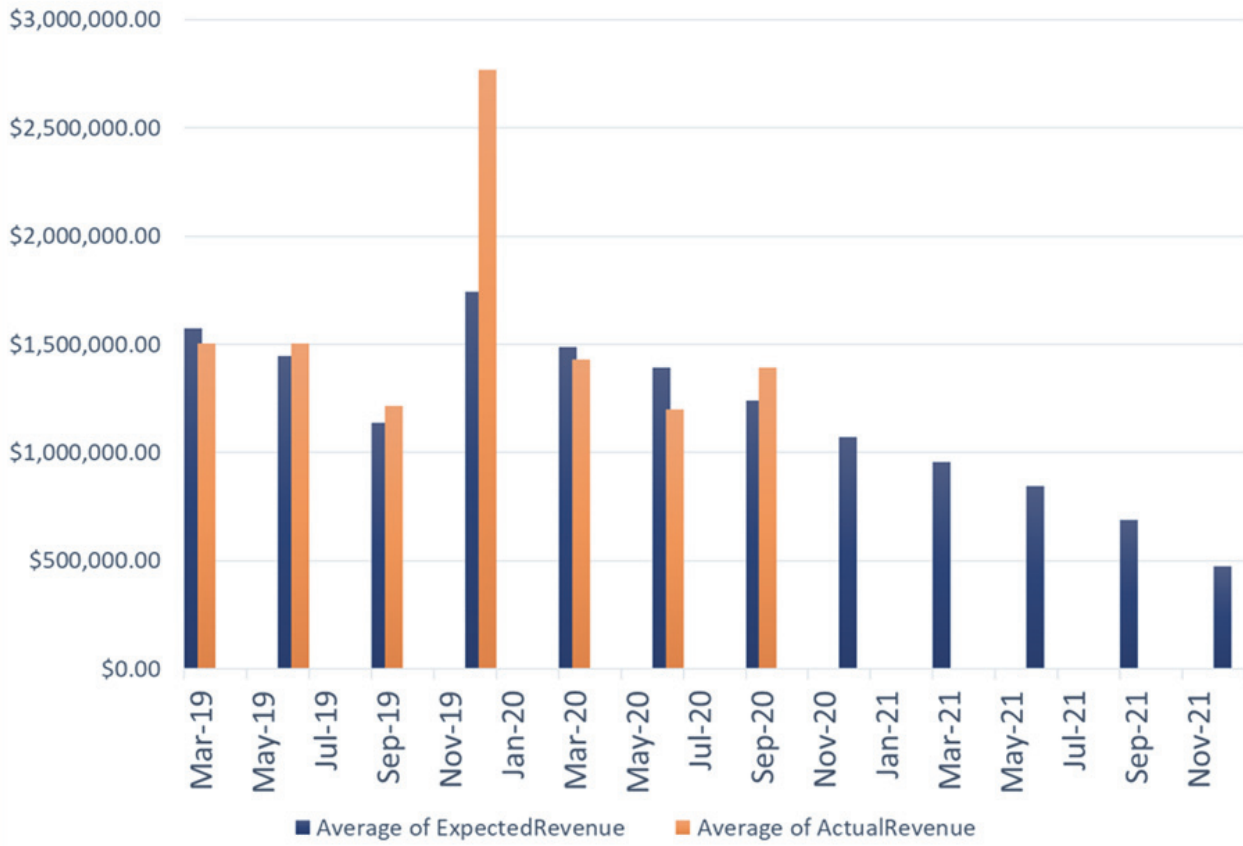


100%

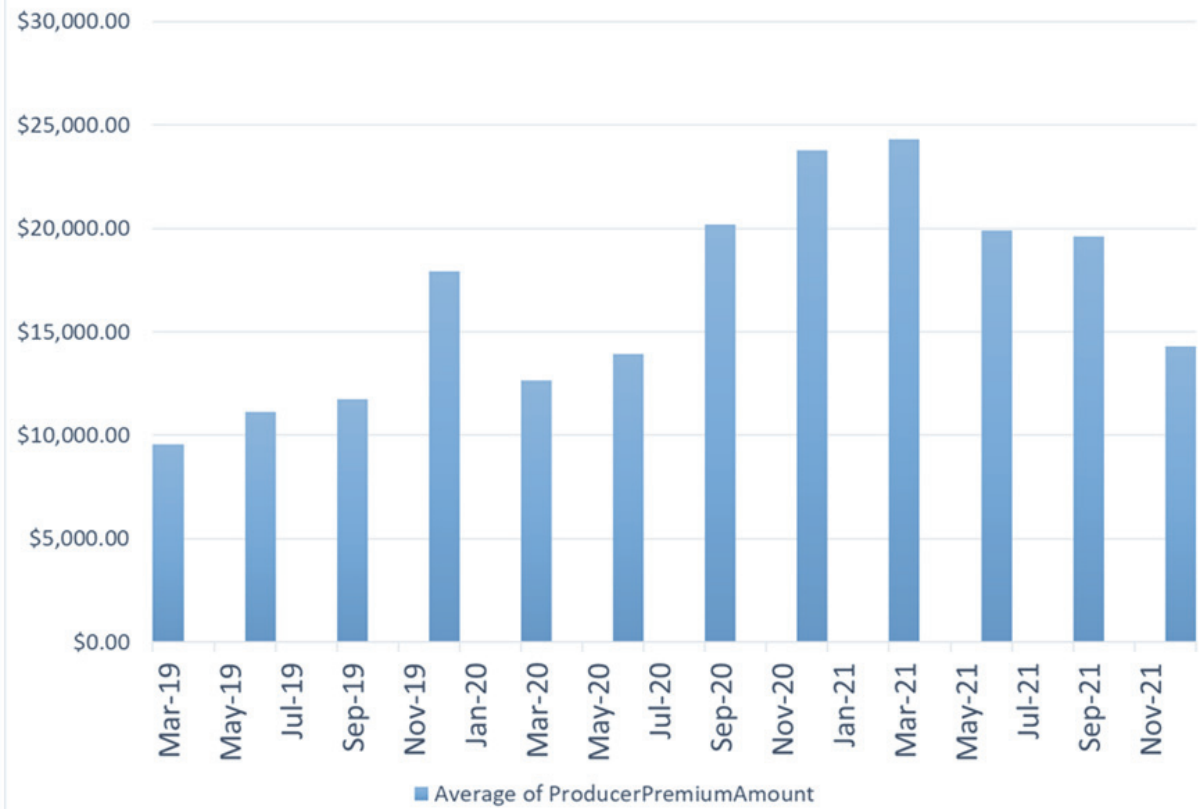
= \$137,800



Expected vs Actual Revenue



Producer Premium



Dairy Revenue Calculation

$$\text{Dairy Revenue Guarantee} - \text{Actual Revenue} = \text{Indemnity}$$
$$\mathbf{\$151,335} \qquad \mathbf{\$137,800} \qquad = \mathbf{\$13,535}$$

State Indexed Milk Production

State Indexed Milk Production = Insured Milk Production * Yield Adjustment Factor

Why it matters? It impacts the amount of production used to calculate the revenue

Index = actual milk production per cow ÷ expected milk production per cow

Example:

$$\mathbf{1.01 = 6,210 \text{ (actual production)} \div 6,144 \text{ (expected production)}}$$

Actual Milk Revenue (1% increase in production)



1,000,000



USDA
Announced
Prices

\$13.78



101%

= \$139,178

Actual Milk Revenue (1% decrease in production)



1,000,000



USDA
Announced
Prices

\$13.78



99%

=\$136,422

Protection Factor

- Provides a tool to better reflect the producer's value of milk by allowing the producer to increase the value of milk or components insured between from 100% of the market value up to 150% in 5% increments.
- Increasing the production factor increases premiums and indemnities, when indemnities are paid. It does not result in more frequent indemnities.

Dairy Revenue Guarantee (Max Protection)

Price

Month	Options	Charts	Last	Change	Price	Open	High	Low	Volume	WT / Lbs	Updated
OCT 2018			15.34	0.01	15.33	15.34	15.34	15.34	1	15.30 / 15.30 CT	14.00 / 15 Oct 2018
NOV 2018			-	-	15.30	-	-	-	5	15.28 / 15.30 CT	14.75 / 18 Oct 2018
DEC 2018			-	-	15.32	-	-	-	5	15.27 / 15.30 CT	14.71 / 15 Oct 2018
JAN 2019			-	-	15.45	-	-	-	5	15.18 / 15.50 CT	14.88 / 18 Oct 2018
FEB 2019			-	-	15.48	-	-	-	5	15.23 / 15.50 CT	14.73 / 18 Oct 2018
MAR 2019			-	-	15.55	-	-	-	5	15.40 / 15.50 CT	14.80 / 18 Oct 2018
APR 2019			-	-	15.85	-	-	-	5	15.80 / 15.90 CT	15.10 / 18 Oct 2018
MAY 2019			-	-	15.90	-	-	-	5	15.87 / 15.90 CT	15.07 / 18 Oct 2018
JUN 2019			-	-	16.00	-	-	-	5	15.75 / 15.90 CT	15.28 / 18 Oct 2018
JUL 2019			-	-	16.20	-	-	-	5	16.05 / 16.10 CT	15.80 / 18 Oct 2018
AUG 2019			-	-	16.41	-	-	-	5	17.14 / 16.90 CT	15.88 / 18 Oct 2018

Milk Production



Coverage Level

Protection Factor

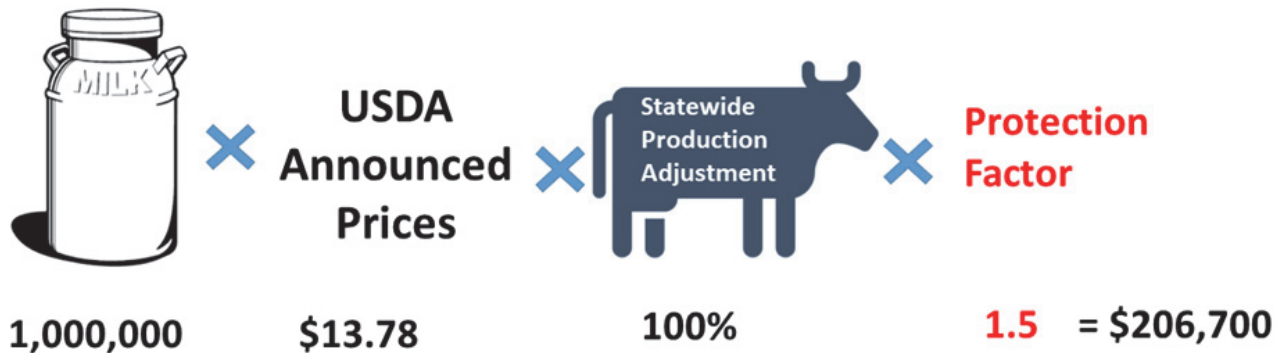
\$15.93

1,000,000 pounds

95%

1.5 = \$227,002

Actual Milk Revenue



Dairy Revenue Calculation

$$\text{Dairy Revenue Guarantee} - \text{Actual Revenue} = \text{Indemnity}$$

\$151,335	\$137,800	= \$13,535
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(Protection Factor)

$$\text{Dairy Revenue Guarantee} - \text{Actual Revenue} = \text{Indemnity}$$

\$227,002	\$206,700	= \$20,302
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Key Takeaways

- DRP Pros
 - Effective risk management tool
 - Subsidy provides good incentive
 - Inexpensive when compared to futures and options
 - Flexible
- DRP Cons
 - A lot of moving pieces
 - Many decisions

Questions?

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