NORTHEAST AG & FEED ALLIANCE

NEAFA News

August 2011

join our mailing list

Board of Directors:

Art Whitman
President
802-442-2851
art@whitmansfeed.com

US Crop Forecast Down, Global Supply Up

Federal forecasts show US farmers will harvest dramatically less grain and soybeans than expected this year, failing to ease high prices and rebuild low global supplies. The global market, however, shows good harvest prospects.

The US Department of Agriculture in its monthly crop report slashed its outlook for the autumn harvests after damaging heat and dryness took its toll on corn and soybean fields in July, while excessive rains hampered spring wheat plantings.

The agency now forecasts farmers will produce 12.914 billion bushels of corn this year, down 4.1% from its estimate last month. Although just below record levels, the harvest comes as booming global demand for corn has left supplies historically low.

The USDA cut its forecasts for the soybean harvest by 5.2% to 3.056 billion bushels and reduced its outlook for US wheat production by 1.4% to 2.077 billion bushels.

Field Surveys In Play For Crop Reports

This month's crop report for corn and soybean production is closely watched because it is the first for the upcoming crop based on field surveys rather than just statistical trends. The surveys revealed damage from hot, dry weather in July.

For the corn crop, the USDA estimated the average US yield for corn at 153 bushels per acre, down 5.7 bushels per acre from last month's projection. The Department also lowered its inventory forecast for corn harvested this year to a 16-year low of 714 million bushels, down from last month's prediction of 870 million bushels.

The USDA did say it expects the tight supplies to trim domestic demand and exports, lowering its forecasts for total use by 2.5% to 13.16 billion bushels for the upcoming crop year, which runs from September 2011 to August 2012. Still, the usage number out paces the agency's production estimate.

The department was criticized heavily last year for overestimating the corn crop in August and then slashing its outlook repeatedly in the fall.

http://www.allaboutfeed.net/news/ August 16

Dairy Gross Margin Insurance: New Funding Awaited

Strong enrollment in the Dairy Gross Margin Program during 2010-2011 led to a temporary shutdown of enrollments as funding caps were exceeded. New funding is expected to be available in October at the start of the federal fiscal year and by the looks of grain yield estimates this might be a good year for farmers to consider the program if they haven't already used it.

The premise of Dairy Gross Margin Insurance is to provide dairy farmers with insurance protection on a portion of the difference between the expected - futures market prices for milk, corn and soybean meal at the time of sign-up - and actual prices for the insured months in a policy that runs for up to one year from the month of enrollment. Because that timetable for insurance does not include the sign-up month or the following month, insurance from a single policy could be obtained for any of 10 months at the discretion of the policyholder. For example, coverage would include December 2011 through September 2012 for a policy written at the end of October.

Expressed as income over feed cost on the expected and actual numbers, having a policy for January through October 2009 would have paid off extremely well at $4.10 per hundred of milk minus 70 cents per hundred for the insurance premium on which there was then no subsidy. The potential returns would not have been nearly as attractive in 2010.

Policyholders can insure any portion of their milk production up to 24 million pounds during any contract period. Producers can add onto their previous percentage for any month during the policy sign-up window. A deductible of up to $2 per hundred in increments of 10 cents can be chosen at sign-up and at least 75 percent of the milk insured in a given month must be produced before a penalty on a potential indemnity is incurred. Those indemnities, minus the premium and any realized overages, are paid after the last insured month under any given policy.

Although only corn and soybean meal futures prices are used to calculate the feed cost, all feeds in a ration can be converted to equivalents of corn and soybeans for their energy and protein value. Within a stated daily dry matter limit per cow, the policyholder can choose the amount of feeds or a default number provided by RMA can be used.

Closing futures prices averaged for the last three business days through the last business Friday are used to set the insured amount of milk income over feed costs. Those numbers can be tracked daily on the http://future.aae.wisc.edu/lgm_dairy.html website.

Dairy Farmers: Specific Strategies Needed For Margin Management Programs

The recent release of grain harvests estimated by the USDA hint at high feed prices for the coming season. Dairy prices appear bullish for the near future as production has been weakened by excessive heat, but margins will be slim due to fuel and feed costs. Now is a good time for farmers to consider enrollment in the Dairy Gross Margin insurance program. Based on the release of federal funding the next enrollment period is estimated for the end of October.

There are several components to successful implementation of risk management strategies including development of a hedging philosophy, selecting the right hedging tool and developing a commodity risk management plan. When coupled with tactical issues such as understanding milk basis risk and hedging complex feed rations these tools maximize the potential benefit for stabilizing dairy income.

With volatile markets and a distracting operating environment, it is one thing to have a plan. It is an entirely different thing to follow through with it. Successful dairy margin managers should focus on the following points to help drive consistency in the execution of their margin management program:

Written Policy - Having a written document that outlines the agreed upon hedging tools, budgets and targets allows for decisiveness and time savings. It also prevents second guessing since all stakeholders in the operation have come together and made a final decision on the policy. This written game plan allows for a consistent approach in execution since expectations and constraints aren't a shifting target.

Regular Schedule- Dairy managers have no shortage of pressing issues vying for their attention. Unfortunately, markets don't have a pause button. Fast markets can result in drastic changes in profitability. Setting aside regularly scheduled times for review of the risk management program keeps opportunities and risks from slipping through the cracks. These scheduled times can be used for either internal review or discussions with outside advisors. Many managers set aside a short amount of

802-334-6731
mtetreault@poulingrain.com

Contact Us:

27 Elk Street
Albany, NY 12207

Phone: 888-445-4595
Fax: 518-783-1258

www.northeastalliance.org

Rick Zimmerman
Executive Director
rzimmerman@zga-llc.com

Louise Calderwood
Governmental Relations Director
lcalderwod@aol.com

Sue Kinner
Membership &
Meeting Registration
sue@nysta.org

time each day or each week for a quick review of positions, prices and margins. A more in-depth review is often scheduled biweekly or monthly.

Actionable Information- Consistently executing a hedging program requires turning a huge quantity of market and operational data into good information. It is important that a dairy margin manager have their vital numbers in front of them before making any hedging decisions. Actionable reports should include details of milk and feed prices and price trends, option hedging costs, coverage and exposure and forward profit opportunities. Having a means to assemble this information in a consistent format allows for time savings as well as the ability to view opportunities and risks through the same lens as time passes.

Stick with the Plan - When forward profit margins are in historically high percentiles, it should be easy to take steps to lock in this opportunity. Yet the typical dairy producer may have trouble pulling the trigger. These are times to reflect back on the policy, which should direct a less emotionally conflicted course of action - scaling into hedge positions that lock in margins as they reach historically favorable levels. In a perfect world, a hedger would spend his or her time only making decisions on how to go about locking in these types of opportunities. In reality, hedgers must also focus on playing defense. When margins become less than ideal, the tendency is for producers to pull back and decide they no longer want to hedge. This ignores the fact that margins could erode further. Consistently managing risk requires maintaining hedge coverage in good times and bad. This approach requires discipline that is rewarded over the long term by smoothing out the peaks and valleys in margins.

Adapted from Will Babler,
Dairy Today: Know your Market,
August 15, 2011 wbabler@firstcapitolrm.com

World Agricultural Outlook Board Releases Milk Forecasts

The milk production forecast for 2011 as released on August 11 by the Economic Research Service of the World Agricultural Outreach Board indicates slightly reduced yields in the US. Although the July Cattle report indicated that producers are holding relatively large numbers of dairy replacement heifers which supports a higher forecast dairy herd, recent hot, humid weather and relatively high priced feed may constrain the growth in milk per cow. Milk production is forecast higher for 2012, reflecting a larger herd in the first part of 2012 but slightly slower growth in milk per cow. The impacts of this year's hot weather on reproductive performance may temper milk production gains for next year.

USDA also raised its All-Milk price forecast to $20.30 to $20.50 per cwt. for 2011, and $17.80 to $18.80 per cwt. for 2012. Commercial exports for 2011 are forecast higher on the strength of butterfat exports. The report lowered imports estimates, reflecting lower imports of cheese and milk proteins. Trade forecasts for 2012 are unchanged.

Vermont Congressman Meets with Dairy Farmers

At a St. Albans dairy roundtable on August 10th, Representative Peter Welch met with Vermont dairy farmers to learn their priorities as the House Agriculture Committee takes up legislation that will set that nation's dairy policy for years to come.

Welch - a member of the House Agriculture Committee - convened the roundtable to hear from Vermont dairy farmers after the Committee's top Democrat, Representative Collin Peterson (D-Minn.), released a draft dairy reform proposal. The proposal includes a strong growth management concept, an idea developed by Vermont dairy farmers that will prevent the price swings that led to the 2009 dairy crisis. Last year, at the request of Vermont dairy farmers, Welch introduced growth management legislation.

"Vermont dairy farmers have been rolling with the tough punches of price instability for too long," Welch said. "I applaud them for leading a national conversation among dairy farmers on the best approach to stabilizing prices. The time to enact common sense reforms is now before the industry experiences another downturn. I intend to bring the good ideas of Vermont's farmers to the table in Congress."

At the roundtable, Welch also announced legislation to close a

trade loophole which drives down the price paid to Vermont dairy farmers for their milk. The loophole allows for the unlimited importation of milk protein concentrate (MPC), a form of dried milk product. Welch's bill, the Milk Import Tariff Equity Act (H.R. 2813), will update existing trade regulations to include MPC and treat it like all other imported dairy products. In the past decade, MPC imports have dramatically increased, undermining the market for domestic powdered milk and driving down the price dairy farmers are paid for their milk.

Seator Charles Schumer (D-NY) has introduced companion legislation in the Senate.

INDUSTRY NEWS

Cargill to Acquire Provimi for $2.14 Billion

Cargill agreed to acquire Provimi, the global animal nutrition company, for an enterprise value of €1.5 billion from Permira funds, the private equity firm which owns Provimi.

Cargill plans to acquire Provimi's worldwide animal nutrition business, which has operations in 26 countries and employs more than 7,000 people across Asia, Europe, Africa and Latin America. The acquisition would strengthen and expand Cargill's existing operations creating a global leader in animal nutrition.

Cargill and Provimi have complementary market positions and strengths. Provimi has broad nutritional expertise, and a wide portfolio of premix, additives and ingredients; Cargill's animal nutrition business brings expertise in compound feed, supply chain and risk management as well as access to global trends, knowledge and information from across the agricultural supply chain. The combination of the businesses would provide an increased range of capabilities and a global network to service customers.

Cargill has a long history in the animal nutrition business, dating back to feed sales in 1884. The company currently has animal feed operations in 26 countries worldwide offering both branded and customized feed products and services, as well as ingredients for feed manufacturers and retailers.

Mercer Milling Achieves HACCP Certification

The Office of the Texas State Chemist recently granted Mercer Milling Company a certificate of conformance as part of a new program for feed manufacturers and distributors who comply with the voluntary Hazard Analysis Critical Control Point plan verification system. Mercer Milling Company, headquartered in Liverpool, New York, manufactures premix and base-mix products for the dairy, livestock and pet food industry.

HACCP, or Hazard Analysis Critical Control Point system, is important because it prioritizes and controls potential hazards in food production. The Office of The Texas State Chemist is the co-author of AAFCO's HACCP program, which is the new standard in the Feed and Pet Food Industry. This HACCP Certification contains the newly recognized standards outlined within the FDA's Food Modernization Act that was adopted in January of 2011.

"This is all about food safety that is traceable all the way back to the source," said Rene Lavoie, Mercer Milling General Manager. In order to achieve certification, the company had to demonstrate strict monitoring and control of its processes. Its two prior quality assurance certifications -- Safe Feed Safe

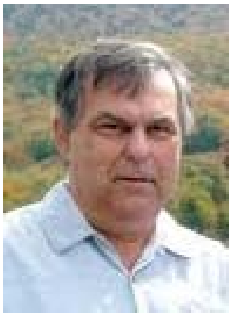
Food and FCI Restricted Use Protein Products -- were also prerequisites for certification, Lavoie said.

Vermont Feed Dealers and Dairy Industry Associations Host 2011 Conference

An excellent program has been assembled featuring presenters on critical issues facing our industry in the 21st century. The VT Feed Dealers meeting is focused on recent developments in regulation and agricultural policy while the VT Dairy Industry Association meeting has speakers on several topics including dairy regulation, processing and utilization. For a full schedule and registration information, **click here**.

.

In Remembrance: Richard Dutil



BRANDON - Richard Eugene Dutil, 58, died Aug. 5, 2011, from injuries sustained in an automobile accident. He was born Nov. 1, 1952, in Barre, the son of Placide and Blandine (Bedard) Dutil.

He was raised in the Barre area, attended St. Monica Elementary School and graduated from Marian High School in 1970. He graduated in 1974 with a bachelor's degree in agricultural engineering from the University of Vermont, where he was a member of Phi Delta Theta Fraternity. He married Jacqueline Muncil on Oct. 17, 1975, at St. Monica Church in Barre.

He was employed by Beacon Feeds in Castleton and moved to Brandon in 1978. In 1982, he became salesperson and manager of Depot Farm Supply in Leicester Junction, eventually becoming owner of the business in 2000. He and his wife also purchased and ran Red Jam Farm for 11 years. In 2002, he purchased a former feed plant in Bethel, now called Green Mountain Feeds.

He was a lector, Eucharistic minister and steward of St. Mary's in Brandon and St. Agnes in Leicester Junction. He was past president and a member of the Feed Dealers Association, the current president of the Vermont Lions Charities and a member of the Brandon/Forest Dale Lions Club for 33 years. While serving the Lions Club, he received a Melvin Jones Fellow Award in 1998 and Lion of the Year Award in 2010.

Survivors include his wife, Jackie, of Brandon; two daughters, Shelly Johnson, of South Burlington, and Ashley Kotylo, of Arlington, Texas; a son, Eric Dutil, of Brandon; a sister, Rosemay Roy, of Barre; three brothers, Leo Dutil and Norman Dutil, both of Barre, and Ronald Dutil, of Northfield; and many nieces, nephews and cousins. He was predeceased by a sister, Prescilla Cote, and a granddaughter.

Memorial contributions may be made to Vermont Lions Charities, c/o John Sprague, Treasurer, P.O. Box 266, South Strafford, VT 05070, the Brandon/Forest Dale Lions Club, P.O. Box 364, Brandon ,VT 05733, or the St. Mary's and St. Agnes Renovation Fund, St. Mary's Rectory, 38 Carver St., Brandon, VT 05733.

Remember, if you missed one, past issues of NEAFA News are always available on our website at:

www.northeastalliance.com/newsletter.html

NEAFA News is a publication of the Northeast Ag & Feed Alliance.

Calendar of Events:

NGFA/PFI Feed & Pet Food Conference
September 14-16, 2011
Westin Crown Center
Kansas City, Missouri
Click here for more information

VT Feed Dealers & Manufacturers Association
and Vermont Dairy Industry Association
September 21-22, 2011
Doubletree Hotel
Burlington, Vermont
Click here for more information

Cornell Nutrition Conference for Feed Manufacturers
October 18-20, 2011
Doubletree Hotel Syracuse
East Syracuse, New York
Click here for more information

AFIA / K-State Short Course
"Establishing a HACCP Program for the Feed Industry"
November 7 -10, 2011
Manhattan, Kansas
Click here for more information

Cornell Dairy Executive Program
December 4-8, 2011
The Statler Hotel & Cornell University
Ithaca, New York