

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JULY 28, 2009 — except where noted

How do I protect a pricing opportunity?

A pricing opportunity exists when futures market prices present a profitable margin over feed costs. Each farm business needs to keep accurate financial records so they are able to use their own history to guide future decisions. Tax accounting and DHI records are valuable ways to compare your business to a standard or an average.

One of these standards is the Penn State Income over Feed Cost (IOFC) and Milk Margin posted on the Center for Dairy Excellence Scorecard and available at the CDE website.

The IOFC is calculated for a constant theoretical feed ration at 65 lbs. of milk. The amounts of feed do not change, only the prices change. The June 2009 IOFC is \$4.12 per cow at 65 lbs of daily production (IOFC is shown below in the box labeled "Milk Margin"). This converts to a Milk Margin (also shown below) of \$6.33 per hundredweight (cwt). These are useful to compare to your records and to follow the historical trends.

You can protect a profitable milk margin with several tools. Selling milk and buying feed through a commodities

broker, milk-marketing cooperative and feed dealer can lock-in the milk margin by fixing the price of your milk and feed.

Buying 'options' or insurance products, such as Dairy Livestock Gross Margin, provide the ability to set a floor (minimum price) on milk and a ceiling (maximum price) on feed.

These products are completely separate from the milk check and feed bill on your farm.

Producers can buy options ('puts' and 'calls') through a commodities broker and some cooperatives. Dairy Livestock Gross Margin insurance (LGM) is a very flexible way to protect milk margins on Pennsylvania-size dairy herds. Approved crop insurance agents sell LGM the last business Friday of each month.

I know that these are new terms and concepts to many dairymen. I will describe them with more detail in future articles. It is important that you understand both the words and the ideas, so that you can make good business decisions when an opportunity presents itself.

As always, I welcome your questions and comments.



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CME DAILY FUTURES & OPTIONS TRADING — JULY 28, 2009 CLOSE

| | JUL-09 | AUG-09 | SEP-09 | OCT-09 | NOV-09 | DEC-09 | JAN-10 | FEB-10 | MAR-10 | APR-10 | MAY-10 | JUN-10 |
|--|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| CLASS III MILK FUTURES (\$/CWT) | 9.94 | 10.84 | 12.28 | 13.26 | 14.13 | 14.55 | 14.63 | 14.73 | 15.13 | 15.50 | 15.54 | 15.90 |
| | WEEK AGO | | | | | | | | | | | |
| | 9.96 | 10.74 | 11.95 | 12.95 | 13.90 | 14.44 | 14.64 | 14.82 | 15.18 | 15.48 | 15.53 | 15.85 |
| | HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED | | | | | | | | | | | |
| | 20.73 6/08 | 20.83 6/08 | 20.98 6/08 | 20.80 6/08 | 20.60 6/08 | 20.64 6/08 | 20.30 6/08 | 19.89 6/08 | 19.75 6/08 | 19.60 6/08 | 19.50 6/08 | 19.20 7/08 |
| | 9.88 7/09 | 10.24 7/09 | 11.10 7/09 | 11.96 7/09 | 12.94 7/09 | 13.30 7/09 | 13.23 1/09 | 13.39 1/09 | 13.72 1/09 | 13.98 1/09 | 14.25 1/09 | 14.56 1/09 |
| | MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference) | | | | | | | | | | | |
| | PA 2.61 | 2.38 | 2.37 | 2.87 | 3.19 | 3.01 | 3.40 | 3.19 | 3.32 | 1.94 | 2.23 | 2.63 |
| | NY 1.61 | 1.44 | 1.39 | 1.79 | 2.17 | 1.97 | 2.32 | 2.11 | 2.32 | 1.04 | 1.43 | 1.57 |
| | VT 1.71 | 1.44 | 1.53 | 1.99 | 2.27 | 1.99 | 2.38 | 2.15 | 2.42 | 1.10 | 1.39 | 1.69 |
| | NJ 1.41 | 1.18 | 1.17 | 1.67 | 1.99 | 1.81 | 2.20 | 1.99 | 2.12 | 0.74 | 1.03 | 1.43 |
| | DE 2.03 | 1.80 | 1.79 | 2.29 | 2.61 | 2.43 | 2.82 | 2.61 | 2.74 | 1.36 | 1.65 | 2.05 |
| | MD 1.99 | 1.76 | 1.75 | 2.25 | 2.57 | 2.39 | 2.78 | 2.57 | 2.70 | 1.32 | 1.61 | 2.01 |
| | OH 1.63 | 1.26 | 1.33 | 1.91 | 2.31 | 2.23 | 2.32 | 2.15 | 2.34 | 0.98 | 1.25 | 1.51 |
| | WV 1.43 | 1.20 | 1.19 | 1.69 | 2.01 | 1.83 | 2.22 | 2.01 | 2.14 | 0.76 | 1.05 | 1.45 |
| | MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., July 24, 2009 | | | | | | | | | | | |
| | 1.60 | 1.64 | 1.29 | 0.70 | 0.26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | N/A |
| | CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium | | | | | | | | | | | |
| | 9.75 0.00 | 10.75 0.11 | 12.25 0.43 | 13.25 0.60 | 14.00 0.68 | 14.50 0.82 | 14.50 0.88 | 14.50 0.90 | 15.00 1.04 | 15.25 1.07 | 15.25 1.13 | 15.75 1.28 |

MILC = Milk Income Loss Contract JUNE MILC (not shown) is estimated at \$1.81



IOFC = Income Over Feed Cost

* NEW Price Announced

Price averages do not include lower-end common cows and heifers.

Average to high dressing

| | SEP-09 | DEC-09 | MAR-10 | MAY-10 | | SEP-09 | OCT-09 | DEC-09 | JAN-10 | | | |
|-------------------------------------|------------|------------|------------|------------|---|---|-----------|-----------|-----------|--------|--------|--------|
| CORN (\$/BU) OPTIONS — CALLS | 2.20 1.023 | 2.30 1.041 | 2.50 1.007 | 2.60 1.040 | Example Daily Strike Price / Premium | SOYMEAL (\$/TON) OPTIONS — CALLS | | | | | | |
| | 2.50 0.723 | 2.70 0.675 | 2.90 0.681 | 3.10 0.673 | | 260 38.60 | 250 35.50 | 250 35.60 | 250 35.65 | | | |
| | 2.80 0.432 | 3.10 0.385 | 3.40 0.386 | 3.60 0.396 | | 280 22.80 | 270 22.20 | 280 19.40 | 280 20.55 | | | |
| | 3.25 0.111 | 3.90 0.096 | 4.60 0.103 | 5.20 0.097 | | 300 11.25 | 300 10.30 | 310 10.15 | 320 9.50 | | | |
| | | | | | | 350 1.75 | 370 1.60 | 410 1.45 | 400 1.40 | | | |
| CORN FUTURES (\$/BU) | SEP-09 | DEC-09 | MAR-10 | MAY-10 | SEP-10 | DEC-10 | MAR-11 | MAY-11 | JUL-11 | SEP-11 | DEC-11 | |
| | 3.204 | 3.296 | 3.426 | 3.522 | 3.682 | 3.756 | 3.870 | 3.940 | 3.990 | 3.960 | 3.926 | |
| | WEEK AGO | | | | | | | | | | | |
| | 3.114 | 3.220 | 3.356 | 3.454 | 3.620 | 3.710 | 3.812 | 3.882 | 3.940 | 3.930 | 3.904 | |
| SOYMEAL FUTURES (\$/TON) | AUG-09 | SEP-09 | OCT-09 | DEC-09 | JAN-10 | MAR-10 | MAY-10 | JUL-10 | AUG-10 | SEP-10 | OCT-10 | DEC-10 |
| | 331.9 | 303.9 | 287.2 | 283.3 | 280.3 | 279.0 | 277.2 | 278.4 | 277.4 | 275.4 | 268.4 | 269.9 |
| | WEEK AGO | | | | | | | | | | | |
| | 322.3 | 294.3 | 277.3 | 272.8 | 270.4 | 270.4 | 270.4 | 272.1 | 270.6 | 266.6 | 259.6 | 261.6 |

| MILK MARGIN — LATEST PSU VALUES — JUNE 2009 | | | | CME DAIRY CASH-SETTLED FUTURES (\$/LB) 07/28/09 | | | | | | | | SPOT CASH |
|--|----------------------------------|-----------------------------|-------------------------|--|-------|-------|-------|-------|-------|-------|-------------|------------------|
| | FEED COST (\$/COW @ 65 lbs milk) | IOFC (\$/COW @ 65 lbs milk) | MILK MARGIN (as \$/CWT) | JUL | AUG | SEP | OCT | NOV | DEC | JAN | JUL 7/28/09 | |
| CURRENT* | 4.33 | 4.12 | 6.33 | NFDM 0.842 | 0.855 | 0.865 | 0.897 | 0.905 | 0.937 | 0.940 | 0.8900 | |
| PREV MO | 4.35 | 4.36 | 6.70 | WHEY 0.290 | 0.290 | 0.282 | 0.300 | 0.300 | 0.302 | 0.280 | N/A | |
| YR AGO | 6.05 | 7.14 | 10.99 | BUTTER 1.190 | 1.247 | 1.290 | 1.330 | 1.350 | 1.370 | 1.400 | 1.2500 | |
| | | | | CME SPOT CHEESE: 40 LB BLOCKS 1.2150 / BARRELS 1.1800 | | | | | | | | |

| ANNOUNCED FEDERAL ORDER PRICES (\$/CWT) | | | | | | CURRENT FEDERAL ORDER VALUES (\$/LB) | | | | | |
|--|-------------|------------|-------------|---------------|-------------|---|---------|--------|------------|--------|----------------------|
| CL I ADV | CLASS II | CLASS III | CLASS IV | ALL-MILK U.S. | ALL-MILK PA | WK ENDING 07/17/09 | PRODUCT | VALUE | MAKE ALLOW | NET | JUNE 2009 COMPONENTS |
| 10.04 (AUG) | 10.79 (JUN) | 9.97 (JUN) | 10.22 (JUN) | 11.40 (JUN) | 13.00 (JUN) | CHEESE | 1.1339 | 2.0003 | 0.9336 | 0.9336 | PROT 1.7283 |
| 10.26 | 10.71 | 9.84 | 10.14 | 11.60 | 13.40 | BUTTER | 1.1747 | 0.1715 | 1.0032 | 1.0032 | B.FAT 1.2544 |
| 18.47 | 16.19 | 20.25 | 15.92 | 19.30 | 20.30 | NFDM | 0.8416 | 0.1678 | 0.6738 | 0.6738 | N.FAT 0.6715 |
| | | | | | | DRY WHEY | 0.2873 | 0.1991 | 0.0882 | 0.0882 | OTHER 0.0723 |

| CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — July 22, 2009) | | | | | | | | | | | | | |
|---|----------|-----------|---------------|---|---|-------------|--------------|---------------------|-------|----------------|---------------|---------------|--|
| COWS: Fresh | Bred | Springing | HEIFERS: Bred | Springing | Open: 300-600 lbs | 600-900 lbs | 900-1200 lbs | BULLS (600-1200 lb) | | | | | |
| 1235 | 1150 | N/A | 1225 | 1215 | N/A | 785 | 905 | 685 | | | | | |
| FOUR WEEK AVG | | | | | | | | | | | | | |
| 1125 | 985 | 1085 | 1040 | 1135 | 695 | 785 | 815 | 740 | | | | | |
| Avg. of prices reported by USDA Market News for PA Auction Markets July 23-28, 2009 | | | | | | | | | | | | | |
| CULL MARKET COWS (\$/CWT LIVELWEIGHT) | | | | | FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT) | | | | | CURRENT | WK AGO | YR AGO | |
| Premium White | Breakers | Boners | Lean | Choice & Prime 1250-1550 lbs | | | | | | 75.00 | 72.85 | 83.00 | |
| 54.75 | 52.50 | 49.75 | 45.75 | BULL CALVES: No. 1 & 2, 85-130 lbs | | | | | 78.85 | 60.60 | 69.00 | | |
| WEEK AGO | | | | | | | | | | | | | |
| 55.60 | 53.35 | 51.25 | 46.25 | | | | | | | | | | |
| YEAR AGO | | | | | | | | | | | | | |
| 70.50 | 66.00 | 63.00 | 58.50 | | | | | | | | | | |

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