

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — AUGUST 4, 2009 — except where noted



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Class III Options? Puts?

An option contract gives the owner the right, but not the obligation, to buy or sell a futures contract at a specified price within a specified time. The specified price is called the strike price. A 'Put' is the right to sell a futures contract. For a cost, a Put guarantees a minimum price to sell a commodities contract in the future. Put options are a way to insure a minimum price for a Class III milk contract. Minimum Price Contracts offered by cooperatives are essentially Put options. Livestock Gross Margin Insurance (LGM) for Dairy is similar to an option contract. LGM protects both feed cost and milk price for a future time period.

The contract months for Class III milk (200,000 lbs of milk used to make cheese) are listed across the top of the chart. The "at the money" strike price for each month is in bold print under OPTIONS-PUTS. The strike price is "the price at which the buyer of an option may choose to exercise his right to purchase or sell the underlying futures contract."

An example is: October Class III milk is trading at \$12.51, Class III option contracts trade in 25-cent increments. So the option closest ("at the money") to \$12.51 is \$12.50. There are also October milk options with a strike price of \$12.00, \$12.25, \$12.75 and beyond in 25-cent steps.

The cost to buy the option contract (premium) is listed to the right of the strike price for each month. Auction bids on the CME set the premium of the option. The option cost will vary depending on how much time is left until the futures contract expires, and how close the option strike price is to the price that the futures contract is trading.

Crop Insurance note- Growers who insured this year's wheat with CRC, Crop Revenue Coverage, are likely to be eligible for a revenue loss payment after harvest-time price is announced (soon after 8/14), even if they have a near normal yield. They should contact insurance agent to discuss possible loss, immediately after harvest-time price is announced.

As always, I welcome your questions and comments.

Prices change daily. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the Center for Dairy Excellence Scorecard. This market information is an example for educational purposes.

CME DAILY FUTURES & OPTIONS TRADING — AUGUST 4, 2009 CLOSE

	AUG-09	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10
CLASS III MILK FUTURES (\$/CWT)	10.96	12.11	12.51	12.90	13.13	13.55	13.67	13.92	14.22	14.35	15.05	15.49
	10.84	12.28	13.26	14.13	14.55	14.63	14.73	15.13	15.50	15.54	15.90	15.93
WEEK AGO												
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED												
	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	19.20 7/08
	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	14.87 1/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61
NY	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61
VT	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71
NJ	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41
DE	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03
MD	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99
OH	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51	1.63
WV	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., July 31, 2009												
	1.68	1.19	0.58	0.33	0.09	0.00	0.00	0.00	0.00	0.00	N/A	N/A
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium												
	10.75 0.01	12.00 0.34	12.50 0.54	12.75 0.59	13.00 0.68	13.50 0.83	13.50 0.84	13.75 0.92	14.00 0.97	14.25 1.11	15.00 1.25	15.25 1.24

MILC = Milk Income Loss Contract JULY MILC (not shown) is estimated at \$1.54



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					Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS					
2.50	1.080	2.70 1.012	2.80 1.076	3.00 1.011		310 31.65	290 33.20	290 33.45	290 32.45		
2.90	0.685	3.10 0.684	3.30 0.707	3.50 0.695		320 24.10	310 21.15	320 19.40	320 19.25		
3.20	0.407	3.60 0.372	3.90 0.410	4.20 0.392		350 8.75	340 10.15	360 9.10	350 10.45		
3.65	0.115	4.60 0.104	5.50 0.105	6.00 0.110		410 1.15	410 1.75	460 1.65	430 1.60		
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	
3.544	3.656	3.790	3.884	3.966	4.040	4.112	4.220	4.290	4.342	4.310 4.262	
WEEK AGO											
3.204	3.296	3.426	3.522	3.606	3.682	3.756	3.870	3.940	3.990	3.960 3.926	
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
366.8	339.3	317.4	311.8	308.8	304.6	297.2	297.2	296.2	291.2	282.7	283.7
WEEK AGO											
331.9	303.9	287.2	283.3	280.3	279.0	277.2	278.4	277.4	275.4	268.4	269.9

MILK MARGIN — LATEST PSU VALUES — JUNE 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 08/4/09							SPOT CASH	
	FEED COST (\$/COW @ 65 lbs milk)	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	AUG	SEP	OCT	NOV	DEC	JAN	FEB	8/4/09	
CURRENT*	4.33	4.12	6.33	NFDM	0.880	0.920	0.930	0.940	0.950	0.955	0.960	0.9500
PREV MO	4.35	4.36	6.70	WHEY	0.295	0.300	0.300	0.297	0.300	0.275	0.275	N/A
YR AGO	6.05	7.14	10.99	BUTTER	1.240	1.297	1.330	1.355	1.370	1.400	1.410	1.2700
				CME SPOT CHEESE:	40 LB BLOCKS 1.2700 / BARRELS 1.2600							

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 07/31/09*	PRODUCT	VALUE	MAKE ALLOW	NET	JULY 2009*
10.04 (AUG)	10.87 (JUL)	9.97 (JUL)	10.15 (JUL)	11.30 (JUL)	13.00 (JUL)		CHEESE	1.1334	0.2003	0.9331	COMPONENTS
							BUTTER	1.1986	0.1715	1.0271	PROT 1.6970
							NFDM	0.8422	0.1678	0.6744	B.FAT 1.2438
							DRY WHEY	0.2912	0.1991	0.0921	N.FAT 0.6677
											OTHER 0.0949

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - July 29, 2009)										
COWS: Fresh			Bred			Springing			HEIFERS: Bred	
1110	N/A	860	1040	1225	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	600	750	
BULLS (600-1200 lb)										
740 600										
FOUR WEEK AVG										
1125	985	1015	1075	1170	635	750	825	705		
Avg. of prices reported by USDA Market News for PA Auction Markets July 30-Aug. 4, 2009										
CULL MARKET COWS (\$/CWT LIVELWEIGHT)					FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)					
Premium White	Breakers	Boners	Lean	Choice & Prime 1250-1550 lbs	CURRENT			WK AGO	YR AGO	
57.00	52.35	49.50	45.60	BULL CALVES: No. 1 & 2, 85-130 lbs	72.35	75.00	83.50			
WEEK AGO				64.10					78.85	67.50
54.75	52.50	49.75	45.75	YEAR AGO						
71.50	67.00	64.25	60.50							

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