

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — AUGUST 11, 2009 — except where noted



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**Milk Margin?** The Income Over Feed Cost (IOFC) and Milk Margin posted at the Penn State Dairy Outlook website, in the Center for Dairy Excellence Scorecard, and listed below gives a historical perspective and a benchmark for comparison to actual farm numbers. The IOFC is calculated for a constant theoretical feed ration for 65 lbs. of milk. The amounts of feed do not change, only the prices. The July 2009 IOFC is \$4.37 per cow.

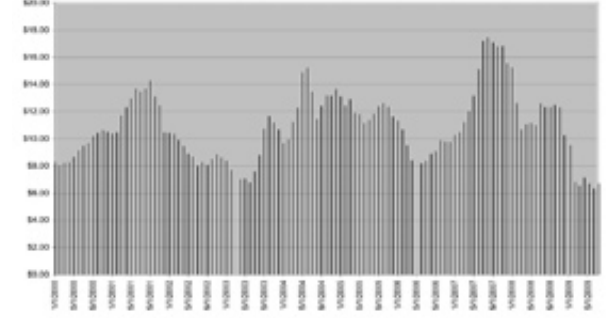
The PSU Milk Margin is that same Income Over Feed Cost for 65 lbs. of milk, converted to 100 lbs. of milk. The Milk Margin is very simply the \$/cwt left from the mailbox price after the feed bill is paid. The Milk Margin for this example is \$6.72 for July of 2009 and \$12.59 for July of 2008. Each farm can calculate its own milk margin from DHI and accounting records for comparison.

LGM (Livestock Gross Margin for Dairy Insurance) uses Class III milk, corn, and soybean meal futures prices to create "expected" milk margins for future months. These expected and actual margins are similar to the PSU Milk Margin. The numbers will not be exactly the same, but the present and historical trends will be similar. Thinking in terms of the margin is important because the margin combines both milk price and

feed cost for a particular month. High milk and high feed prices can create a narrow margin. Average milk prices and low feed prices can create a wide (very profitable) margin.

Approved crop insurance agents sell LGM for Dairy on the last business Friday of each month, from the closing of the Chicago Mercantile Exchange until 9:00 pm Eastern time on the following day (Saturday). The next sales period for LGM is August 28.

PA Milk Margin 2000 - July 2009



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 11, 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
<b>CLASS III MILK FUTURES (\$/CWT)</b>	11.06	12.65	13.27	13.40	13.90	13.95	13.95	14.05	14.37	14.58	15.15	15.51
	----- WEEK AGO -----											
	10.96	12.11	12.51	12.90	13.13	13.55	13.67	13.92	14.22	14.35	15.05	15.49
	----- 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	12.90 8/09	13.13 8/09	13.23 1/09	13.39 1/09	13.72 1/09	13.98 1/09	14.25 8/09	14.56 1/09	14.87 1/09
	<b>MILK BASIS (\$/CWT) — SELECTED NORTHEAST &amp; MID-ATLANTIC STATES (2008 Historical Reference)</b>											
	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
	<b>MILC PAYMENT (\$/CWT) FORECASTS</b> Based on Futures as of Fri., Aug. 7, 2009											
	1.64	1.43	1.18	1.08	1.02	0.90	0.61	0.59	0.55	0.55	0.50	0.39
	<b>CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium</b>											
	11.00 0.04	12.50 0.30	13.25 0.55	13.25 0.60	13.75 0.70	13.75 0.77	13.75 0.83	14.00 0.98	14.25 1.02	14.50 1.13	15.00 1.19	15.25 1.22

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			
<b>CORN (\$/BU) OPTIONS — CALLS</b>	2.20 1.043	2.30 1.012	2.40 1.044	2.50 1.067	Example Daily Strike Price / Premium	<b>SOYMEAL (\$/TON) OPTIONS — CALLS</b>						
	2.50 0.722	2.60 0.744	2.80 0.752	3.00 0.701		300 35.35	280 36.00	280 37.30	280 37.20			
	2.80 0.446	3.00 0.447	3.40 0.405	3.60 0.422		320 18.85	310 18.05	310 21.85	330 21.35			
	3.25 0.100	3.90 0.106	4.80 0.101	5.30 0.104		340 8.00	330 10.80	350 10.30	370 10.05			
						370 1.75	400 1.65	460 1.60	450 1.75			
<b>CORN FUTURES (\$/BU)</b>	SEP-09	DEC-09	MAR-10	MAY-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	
	3.264	3.310	3.444	3.534	3.682	3.762	3.882	3.952	4.002	3.972	3.932	
	----- WEEK AGO -----											
	3.544	3.656	3.790	3.884	4.040	4.112	4.220	4.290	4.342	4.310	4.262	
<b>SOYMEAL FUTURES (\$/TON)</b>	AUG-09	SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10
	383.2	343.7	317.8	313.7	310.5	306.5	300.5	299.1	297.1	291.1	280.6	280.6
	----- WEEK AGO -----											
	366.8	339.3	317.4	311.8	308.8	304.6	297.2	297.2	296.2	291.2	282.7	283.7

<b>MILK MARGIN — LATEST PSU VALUES — JULY 2009*</b>				<b>CME DAIRY CASH-SETTLED FUTURES (\$/LB) 08/11/09</b>								<b>SPOT CASH</b>
	FEED COST (\$/COW @ 65 lbs milk)	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	AUG	SEP	OCT	NOV	DEC	JAN	FEB	8/11/09	
CURRENT*	4.08	4.37	6.72	NFDM 0.880	0.920	0.950	0.970	0.990	1.030	1.030	0.9950	
PREV MO	4.33	4.12	6.33	WHEY 0.295	0.302	0.302	0.302	0.302	0.277	0.277	N/A	
YRAGO	5.73	8.19	12.59	BUTTER 1.222	1.255	1.280	1.317	1.335	1.370	1.390	1.2200	
				<b>CME SPOT CHEESE: 40 LB BLOCKS 1.3100 / BARRELS 1.2900</b>								

<b>ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)</b>						<b>CURRENT FEDERAL ORDER VALUES (\$/LB)</b>					
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 COMPONENTS
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	PROT	1.6970
						BUTTER	1.1986	0.1715	1.0271	B.FAT	1.2438
						NFDM	0.8422	0.1678	0.6744	N.FAT	0.6677
						DRY WHEY	0.2912	0.1991	0.0921	OTHER	0.0949

<b>CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - Aug. 5, 2009)</b>														
COWS: Fresh		Bred	Springing	HEIFERS: Bred		Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)				
1235	N/A	860	1035	1175	795	785	N/A	850						
----- FOUR WEEK AVG -----														
1155	985	970	1085	1180	685	760	825	725						
Avg. of prices reported by USDA Market News for PA Auction Markets Aug. 6-Aug. 11, 2009														
<b>CULL MARKET COWS (\$/CWT LIVELWEIGHT)</b>														
Premium White	Breakers	Boners	Lean	<b>FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)</b>							CURRENT	WK AGO	YR AGO	
53.50	52.00	49.00	46.00	Choice & Prime 1250-1550 lbs							67.50	72.35	86.10	
				BULL CALVES: No. 1 & 2, 85-130 lbs							72.00	64.10	67.50	
				----- WEEK AGO -----										
				----- YEAR AGO -----										
				57.00	52.35	49.50	45.60							
				70.85	66.50	63.00	58.50							

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