# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — **OCTOBER 6, 2009** — except where noted

## Risk Management

While most farmers would consider themselves risk averse, the sense of accomplishment from overcoming a challenge (risk) is one of the greatest satisfactions of farming. Dairy farmers deal with risks from disease, fire, weather, liability, injury, labor, environment, mechanical breakdown, government policy, and even price risk every day.

AVOID risks with a high probability of occurrence and with large negative consequences. Don't ship the milk from a treated cow. Don't put manure or chemicals directly into a stream.

SHARE risks with large consequences but low probability by buying insurance or sharing resources with your neighbors. Property casualty insurance, health insurance, and crop insurance are all ways to spread risks over a larger group making costs more predicable.

MANAGE all your risks. Keep vaccination schedules up to date, properly maintain equipment, and select your correct deductible levels on insurance policies.

ASSUME the low impact risks that you might benefit from. These include that "new and improved" teat dip and seed corn variety, as well as the used haybine that your neighbor is selling and that lovely bred heifer at the auction.

In the past, Joe Dairyman assumed the price risk because the markets were less volatile. The graph shows that the October 2009 Class III milk contract has traded from a high of $20.80 to a low of $11.96. Joe may need to manage his price risk in the future. Can he assume the risk that government or industry policy will provide a profit for his business?

On Oct. 27 in Harrisburg and Oct.28 in Clarks Mills, PA, the Pennsylvania Profitability Forum will feature a keynote address from the U.S. Department of Agriculture, along with Phil Plourd from Blimling & Associates and Dr. David Galton from Cornell on marketplace issues and how to manage for profitability in turbulent times. To register, call 717-346-0849 or visit www.centerfordairyexcellence.org.

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**Announced Class III Futures Price - Contract Date Oct. 2009**

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

## CME DAILY FUTURES & OPTIONS TRADING — OCTOBER 6, 2009 CLOSE

| | SEP-09 | OCT-09 | NOV-09 | DEC-09 | JAN-10 | FEB-10 | MAR-10 | APR-10 | MAY-10 | JUN-10 | JUL-10 | AUG-10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CLASS III MILK FUTURES** ($/CWT) | N/A | 12.84 | 14.21 | 14.65 | 14.58 | 14.53 | 14.67 | 14.53 | 14.75 | 14.75 | 14.90 | 15.18 |
| *WEEK AGO* | 12.08 | 12.66 | 13.56 | 14.05 | 14.09 | 14.26 | 14.33 | 14.24 | 14.48 | 14.70 | 14.90 | 15.21 |
| **HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT** *AND MONTH/YEAR IT OCCURRED* | 20.98 *6/08* | 20.80 *6/08* | 20.60 *6/08* | 20.64 *6/08* | 20.30 *6/08* | 19.89 *6/08* | 19.75 *6/08* | 19.60 *6/08* | 19.50 *6/08* | 19.20 *7/08* | 19.20 *7/08* | 15.45 *9/09* |
| | 11.10 *7/09* | 11.96 *7/09* | 12.80 *8/09* | 13.00 *9/09* | 13.23 *1/09* | 13.31 *8/09* | 13.41 *8/09* | 13.58 *8/09* | 13.82 *8/09* | 14.49 *8/09* | 14.75 *9/09* | 15.00 *9/09* |
| **MILK BASIS** ($/CWT) — **SELECTED NORTHEAST & MID-ATLANTIC STATES** (2008 Historical Reference) | | | | | | | | | | | | |
| **PA** | 2.37 | 2.87 | 3.19 | 3.01 | 3.40 | 3.19 | 3.32 | 1.94 | 2.23 | 2.63 | 2.61 | 2.38 |
| **NY** | 1.39 | 1.79 | 2.17 | 1.97 | 2.32 | 2.11 | 2.32 | 1.04 | 1.43 | 1.57 | 1.61 | 1.44 |
| **VT** | 1.53 | 1.99 | 2.27 | 1.99 | 2.38 | 2.15 | 2.42 | 1.10 | 1.39 | 1.69 | 1.71 | 1.44 |
| **NJ** | 1.17 | 1.67 | 1.99 | 1.81 | 2.20 | 1.99 | 2.12 | 0.74 | 1.03 | 1.43 | 1.41 | 1.18 |
| **DE** | 1.79 | 2.29 | 2.61 | 2.43 | 2.82 | 2.61 | 2.74 | 1.36 | 1.65 | 2.05 | 2.03 | 1.80 |
| **MD** | 1.75 | 2.25 | 2.57 | 2.39 | 2.78 | 2.57 | 2.70 | 1.32 | 1.61 | 2.01 | 1.99 | 1.76 |
| **OH** | 1.33 | 1.91 | 2.31 | 2.23 | 2.32 | 2.15 | 2.34 | 0.98 | 1.25 | 1.51 | 1.63 | 1.26 |
| **WV** | 1.19 | 1.69 | 2.01 | 1.83 | 2.22 | 2.01 | 2.14 | 0.76 | 1.05 | 1.45 | 1.43 | 1.20 |
| **MILC PAYMENT** ($/CWT) **FORECASTS** Based on Futures as of Fri., Oct. 2, 2009 | **1.24** | **0.60** | **0.40** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| **CLASS III MILK** ($/CWT) **OPTIONS — PUTS —** Daily Strike Price / Premium | **N/A** | **12.75** 0.08 | **14.00** 0.32 | **14.50** 0.52 | **14.50** 0.66 | **14.50** 0.76 | **14.50** 0.77 | **14.50** 0.89 | **14.75** 1.00 | **14.75** 1.05 | **14.25** 0.80 | **15.00** 1.11 |

**MILC** = *Milk Income Loss Contract AUG MILC (not shown) is estimated at $1.64*

| | DEC-09 | MAR-10 | MAY-10 | JUL-10 |
|---|---|---|---|---|
| **CORN ($/BU) OPTIONS — CALLS** | **2.50** 1.084 | **2.50** 1.053 | **2.60** 1.047 | **2.70** 1.046 |
| | **3.00** 0.607 | **3.10** 0.675 | **3.20** 0.552 | **3.30** 0.721 |
| | **3.60** 0.186 | **3.70** 0.310 | **3.80** 0.350 | **3.80** 0.445 |
| | **3.80** 0.116 | **4.40** 0.114 | **4.70** 0.120 | **4.90** 0.095 |

Example Daily Strike Price / Premium

| | DEC-09 | JAN-09 | MAR-10 | MAY-10 |
|---|---|---|---|---|
| **SOYMEAL ($/TON) OPTIONS — CALLS** | **240** 38.80 | **240** 31.20 | **230** 39.45 | **230** 39.25 |
| | **260** 21.75 | **260** 17.00 | **250** 28.50 | **250** 26.25 |
| | **280** 10.30 | **280** 10.80 | **270** 17.30 | **270** 18.85 |
| | **320** 2.00 | **330** 1.85 | **360** 1.65 | **380** 1.80 |

| | DEC-09 | MAR-10 | MAY-10 | JUL-10 | SEP-10 | DEC-10 | MAR-11 | MAY-11 | JUL-11 | SEP-11 | DEC-11 | JUL-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CORN FUTURES** ($/BU) | **3.582** | **3.704** | **3.786** | **3.862** | **3.940** | **4.034** | **4.144** | **4.220** | **4.286** | **4.170** | **4.104** | **4.304** |
| *WEEK AGO* | 3.410 | 3.540 | 3.630 | 3.710 | 3.792 | 3.894 | 4.012 | 4.094 | 4.144 | 4.060 | 4.030 | 4.240 |

| | OCT-09 | DEC-09 | JAN-10 | MAR-10 | MAY-10 | JUL-10 | AUG-10 | SEP-10 | OCT-10 | DEC-10 | JAN-11 | MAR-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **SOYMEAL FUTURES** ($/TON) | **285.5** | **277.5** | **273.6** | **270.3** | **267.5** | **268.0** | **268.9** | **268.4** | **264.5** | **265.0** | **265.5** | **267.5** |
| *WEEK AGO* | 288.0 | 284.8 | 282.0 | 278.4 | 274.6 | 274.6 | 274.6 | 272.3 | 265.8 | 265.3 | 265.8 | 267.8 |

**IOFC** = *Income Over Feed Cost*

**MILK MARGIN — LATEST PSU VALUES — AUG 2009**

| | FEED COST (*Now based on $/CWT milk*) | IOFC ($/COW @ 65 lbs milk) | MILK MARGIN ($/CWT milk) |
|---|---|---|---|
| **CURRENT** | **6.09** | **4.62** | **7.11** |
| PREV MO | 6.18 | 4.43 | 6.82 |
| YR AGO | 8.15 | 8.02 | 12.33 |

**CME DAIRY CASH-SETTLED FUTURES ($/LB) 10/02/09**

| | OCT | NOV | DEC | JAN | FEB | MAR | APR | SPOT CASH 10/06/09 |
|---|---|---|---|---|---|---|---|---|
| **NFDM** | 1.021 | 1.050 | 1.075 | 1.150 | 1.150 | 1.120 | 1.150 | **1.2000** |
| **WHEY** | 0.340 | 0.360 | 0.367 | 0.375 | 0.365 | 0.365 | 0.360 | N/A |
| **BUTTER** | 1.245 | 1.267 | 1.325 | 1.375 | 1.357 | 1.395 | 1.410 | **1.2350** |

**CME SPOT CHEESE: 40 LB BLOCKS 1.4525 / BARRELS 1.4300**

* *NEW Price Announced*

**ANNOUNCED FEDERAL ORDER PRICES** ($/CWT)

| | CL I ADV | CLASS II* | CLASS III* | CLASS IV* | ALL-MILK U.S.* | ALL-MILK PA * |
|---|---|---|---|---|---|---|
| | **12.35** (OCT) | **11.01** (SEP) | **12.11** (SEP ) | **11.15** (SEP) | **12.70** (SEP) | **14.10** (SEP) |
| *MONTH AGO* | 10.93 | 10.86 | 11.20 | 10.38 | 11.80 | 13.20 |
| *YEAR AGO* | 18.40 | 17.58 | 16.28 | 15.45 | 18.20 | 20.40 |

***CURRENT FEDERAL ORDER VALUES** ($/LB)

WK ENDING 10/06/09 — SEP 2009

| PRODUCT | VALUE | MAKE ALLOW | NET | COMPONENTS |
|---|---|---|---|---|
| CHEESE | 1.3522 | 0.2003 | **1.1519** | **PROT 2.4243** |
| BUTTER | 1.1811 | 0.1715 | **1.0096** | **B.FAT 1.2226** |
| NFDM | 0.9664 | 0.1678 | **0.7986** | **N.FAT 0.7906** |
| DRY WHEY | 0.2979 | 0.1991 | **0.0988** | **OTHER 0.1018** |

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

**CATTLE FOR DAIRY PURPOSES** ($/HEAD) NORTHEAST (Average of USDA-Reported sales – New Holland, PA – (Sept. 30, 2009)

| | COWS: Fresh | Bred | Springing | HEIFERS: Bred | Springing | Open: 300-600 lbs | 600-900 lbs | 900-1200 lbs | BULLS (600-1200 lb) |
|---|---|---|---|---|---|---|---|---|---|
| | **1375** | **1050** | **1325** | **1065** | **1375** | **580** | **695** | **685** | **630** |
| *FOUR WEEK AVG* | 1310 | 910 | 1300 | 1145 | 1295 | 625 | 795 | 890 | 665 |

Avg. of prices reported by USDA Market News for PA Auction Markets Oct. 1-6, 2009

**CULL MARKET COWS** ($/CWT LIVEWEIGHT)

| | Premium White | Breakers | Boners | Lean |
|---|---|---|---|---|
| | **48.00** | **46.25** | **44.00** | **41.50** |
| *WEEK AGO* | 50.50 | 48.75 | 46.50 | 42.75 |
| *YEAR AGO* | 60.25 | 57.75 | 53.75 | 49.25 |

*Average to high dressing*

**FED HOLSTEIN STEERS** ($/CWT LIVEWEIGHT)

| | CURRENT | WK AGO | YR AGO |
|---|---|---|---|
| Choice & Prime 1250-1550 lbs | **71.75** | 71.60 | 80.25 |
| **BULL CALVES:** No. 1 & 2, 85-130 lbs | **65.00** | 62.00 | 75.00 |

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