

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — SEPTEMBER 25, 2009 — except where noted



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## A Short Milk Price History

There have been other challenging times in the dairy industry. Early dairy farms had only the local market for milk, butter, and cheese. In the 1930's, the Federal government passed several laws allowing the Federal Milk Marketing Orders (FMMO) to be created. Their role is to provide for orderly milk marketing, and to assure an adequate supply of milk to consumers at reasonable prices to both dairy farmers and consumers.

In 1950, the federal dairy price support program was implemented. It converted the support price into a price per pound of cheese, butter and nonfat dry milk. The CCC stands ready to purchase these products should milk fall below the support price.

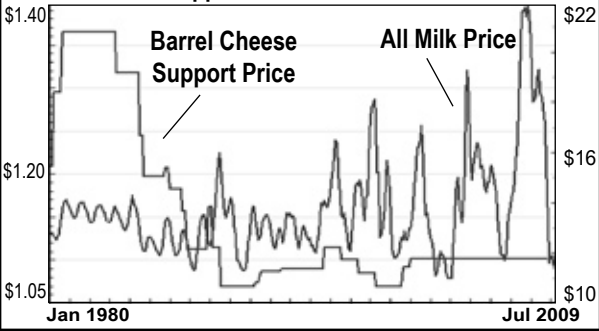
Before 1960, the different FMMOs used different formulas to establish minimum Class prices. By 1960, it was recognized that butter, cheese and dry milk powder were marketed nationally. Due to improvements in roads and trucks, fluid milk products were also distributed over a much larger regional area.

The Minnesota-Wisconsin Price Series (M-W)—the weighted average price paid by Minnesota and Wisconsin butter, milk powder and cheese plants for Grade B milk—was adopted as the base price for Class III and as the "mover" of Class II and Class I prices in all FMMOs. A differential, which varied by FMMO, was added to the M-W price to arrive at a Class I price reflecting the added costs to produce Grade A rather than Grade B milk. Eau

Clare, Wisconsin became the starting point for the Class I differential which increased with distance from Eau Claire to reflect transportation costs.

In the 1980's, as dairy farmers in Wisconsin and Minnesota converted to Grade A production, the M-W came into question due to a reduced quantity of Grade B milk. Other regions of the U.S. were also producing significant shares of manufactured products. This led to changes in the 1996 farm bill that became the pricing system we use today.

## Barrel Cheese Support Price vs. All Milk Price 1980-2009



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 — SEPTEMBER 25, 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
<b>CLASS III MILK FUTURES (\$/CWT)</b>	12.07	12.80	13.54	14.20	14.21	14.41	14.40	14.33	14.45	14.75	15.00	15.30
	WEEK AGO											
	12.07	12.59	13.50	14.18	14.26	14.45	14.47	14.45	14.50	14.80	15.05	15.34
	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
<b>MILK BASIS (\$/CWT) — SELECTED NORTHEAST &amp; MID-ATLANTIC STATES (2008 Historical Reference)</b>												
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
<b>MILC PAYMENT (\$/CWT) FORECASTS</b> Based on Futures as of Fri., Sept. 25, 2009	1.24	0.60	0.40	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium</b>	12.00 0.00	12.75 0.15	13.50 0.42	14.00 0.48	14.00 0.58	14.25 0.68	14.25 0.75	14.25 0.83	14.25 0.85	14.75 1.02	15.00 1.09	15.25 1.15



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



IOFC = Income Over Feed Cost

\* NEW Price Announced

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

Average to high dressing

	DEC-09	MAR-10	MAY-10	JUL-10
<b>CORN (\$/BU) OPTIONS — CALLS</b>				
2.30	1.042	2.50 1.011	2.60 1.012	2.70 1.011
2.80	0.564	3.00 0.553	3.10 0.581	3.10 0.697
3.30	0.207	3.50 0.266	3.60 0.310	3.60 0.402
3.60	0.100	4.10 0.105	4.40 0.106	4.90 0.104

	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	JUL-12
<b>CORN FUTURES (\$/BU)</b>	3.340	3.466	3.554	3.636	3.722	3.830	3.950	4.030	4.084	4.010	3.970	4.190
	WEEK AGO											
	3.256	3.390	3.482	3.570	3.656	3.762	3.884	3.966	4.022	3.946	3.912	4.142

	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11
<b>SOYMEAL FUTURES (\$/TON)</b>	289.2	283.9	281.6	279.0	277.1	277.7	277.8	275.8	268.5	267.6	268.1	270.1
	WEEK AGO											
	282.1	278.7	276.9	275.3	274.2	274.8	274.8	272.0	262.5	262.0	262.5	264.5

	OCT-09	DEC-09	JAN-10	MAR-10
<b>SOYMEAL (\$/TON) OPTIONS — CALLS</b>				
250	34.05	250 36.40	250 32.45	250 36.15
260	24.10	260 28.30	260 25.30	260 27.35
280	5.25	280 15.40	280 16.40	280 19.00
290	1.00	340 1.90	350 1.90	390 1.70

	FEED COST	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (\$/CWT milk)
<b>MILK MARGIN — LATEST PSU VALUES — AUG 2009</b>	6.09	4.62	7.11
PREV MO	6.18	4.43	6.82
YR AGO	8.15	8.02	12.33

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	9/25/09
<b>CME DAIRY CASH-SETTLED FUTURES (\$/LB) 09/25/09</b>								
NFDM	0.960	0.985	1.010	1.025	1.040	1.055	1.060	1.0650
WHEY	0.299	0.330	0.350	0.352	0.350	0.330	0.330	N/A
BUTTER	1.177	1.265	1.285	1.310	1.345	1.345	1.350	1.2600
<b>CME SPOT CHEESE: 40 LB BLOCKS</b>	1.4125							1.3775

	CL I ADV	CLASS II	CLASS III	CLASS IV	ALL-MILK U.S.	ALL-MILK PA	WK ENDING 09/18/09	PRODUCT VALUE	MAKE ALLOW	NET	AUG 2009 COMPONENTS
<b>ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)</b>	12.35 (OCT)	10.86 (AUG)	11.20 (AUG)	10.38 (AUG)	11.80 (AUG)	13.20 (AUG)					
	MONTH AGO										
	10.93	10.87	9.97	10.15	11.30	13.00					
	YEAR AGO										
	18.40	17.45	17.32	16.64	18.40	20.50					
	CURRENT FEDERAL ORDER VALUES (\$/LB)										
	AUG 2009 COMPONENTS										
CHEESE	1.3802	0.2003	1.1799								
BUTTER	1.1658	0.1715	0.9943								
NFDM	0.9541	0.1678	0.7863								
DRY WHEY	0.2942	0.1991	0.0951								

	FRESH	BRED	SPRINGING	HEIFERS: BRED	SPRINGING	OPEN: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)
<b>CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — (Sept 23, 2009))</b>	1200	N/A	1300	1165	1250	615	835	N/A	585
	FOUR WEEK AVG								
	1295	765	1285	1135	1300	655	835	1095	705

	CHOICE & PRIME 1250-1550 lbs	CURRENT	WK AGO	YR AGO
<b>FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)</b>	71.60	72.35	81.00	
<b>BULL CALVES: No. 1 &amp; 2, 85-130 lbs</b>	62.00	82.00	81.00	

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