

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JUNE 30, 2009 — except where noted

What is 'Basis'?

The Chicago Mercantile Exchange defines basis as "the local cash market price minus the price of the nearby futures contract." For dairymen this means that the basis for May milk is the difference between the Class III closing price for the May contract (\$9.84) and your net price received per cwt for May milk. Therefore, if the May milk check price is \$12.40, subtract the May Class III close of -\$9.84. The difference is the basis for May of 2009, which in this example is +\$2.56.

From the 'Milk Basis' chart below, you can see that basis for milk, as for all other commodities, will vary by the time of the year and the geographic location. These differences are due to transportation costs, quality bonuses, state premiums, varying percentages of Class I utilization, as well as other local price factors. Basis on all commodities will change to reflect local supply and demand when compared to the futures price on the CME.

Basis can be positive (the local price is higher than the CME price) or negative (the local price is lower than the CME price). As I write this, the basis for corn is +\$0.30 in south

central PA. In La Crosse, WI, the basis is -\$0.30 under the July corn contract traded on the CME.

The 'Milk Basis' chart below shows an average basis by state and month for 2008. These numbers are a historical reference, giving a broad average that you can use to roughly estimate your future mailbox price. For example, if we look at the October 2009 Class III contract price of \$12.35 at the close of trade on June 30, and add the PA October basis of \$2.87, we can estimate that as of the market close on Tuesday, June 30, the anticipated PA mailbox price for October 2009 would be \$15.22.

As we move forward in time, the market will have more accurate information about where supply and demand for dairy products really are in October of 2009. As I said last week, with this information, the Class III price may move higher or lower.

Basis relates the CME commodity price to the local price. It can be used to approximate the futures price to a local price in the future, so long as you understand that markets will fluctuate as more information becomes available pertaining to that future contract.

As always, I welcome your topics and questions.



ALAN ZEPP
Risk Management Program Coordinator
717-420-7448
azepp@centerfordairyexcellence.org

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 — JUNE 30, 2009 CLOSE

	JUN-09	JUL-09	AUG-09	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10
CLASS III MILK FUTURES (\$/CWT)	9.93	10.07	10.62	11.52	12.35	13.37	13.76	14.01	14.00	14.50	14.74	14.80
	9.94	10.10	10.73	11.57	12.41	13.23	13.56	13.60	13.60	14.17	14.45	14.58
----- WEEK AGO -----												
----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----												
	20.65 6/08	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
	9.88 6/09	10.04 6/09	10.62 6/09	11.47 6/09	12.35 6/09	13.23 6/09	13.48 6/09	13.23 1/09	13.39 1/09	13.72 1/09	13.98 1/09	14.25 1/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	2.63	2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23
NY	1.57	1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43
VT	1.69	1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39
NJ	1.43	1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03
DE	2.05	2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65
MD	2.01	1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61
OH	1.51	1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25
WV	1.45	1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05
MILC PAYMENT (\$/CWT) PROJECTIONS Based on Futures as of June 26, 2009												
	1.81	1.81	1.67	1.37	0.94	0.56	0.15	0.04	0.01	0.04	0.00	0.00
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium												
	9.75 0.00	10.00 0.07	10.50 0.34	11.50 0.58	12.25 0.67	13.25 0.83	13.75 0.98	14.00 1.01	14.00 1.07	14.50 1.17	14.50 1.12	14.75 1.30

MILC = Milk Income Loss Contract MAY MILC (not shown) is estimated at \$1.47



CORN (\$/BU) OPTIONS — CALLS

	JUL-09	SEP-09	DEC-09	MAR-10
N/A	2.80	1.054	2.70	1.002
N/A	3.15	0.733	3.10	0.683
N/A	3.45	0.491	3.50	0.426
N/A	3.85	0.092	4.60	0.102

Example Daily Strike Price / Premium

SOYMEAL (\$/TON) OPTIONS — CALLS

	AUG-09	SEP-09	OCT-09	DEC-09
340	37.35	310 38.10	290 36.15	290 35.50
360	22.80	340 20.50	320 21.00	330 19.15
380	12.50	370 10.70	360 9.50	370 9.80
440	1.65	470 1.45	470 1.40	500 1.40

CORN FUTURES (\$/BU)

	JUL-09	SEP-09	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	JUL-11	SEP-11	DEC-11
	3.476	3.544	3.672	3.794	3.882	3.962	3.996	4.032	4.142	4.232	4.206	4.182
	3.890	3.972	4.090	4.204	4.284	4.354	4.290	4.222	4.322	4.422	4.380	4.336

SOYMEAL FUTURES (\$/TON)

	JUL-09	AUG-09	SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10
	412.3	374.3	339.3	314.3	306.3	299.0	291.3	283.3	281.6	276.6	271.6	261.0
	388.5	361.6	334.6	314.5	308.3	304.4	300.4	295.4	294.9	290.9	284.9	271.0

IOFC = Income Over Feed Cost

MILK MARGIN — LATEST PSU VALUES — MAY* 2009

	FEED COST (\$/COW @ 65 lbs milk)	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)
CURRENT*	4.29	4.42	6.81
PREV MO	4.05	4.66	7.17
YR AGO	5.44	7.23	11.13

CME DAIRY CASH-SETTLED FUTURES (\$/LB) 06/30/09

	JUN	JUL	AUG	SEP	OCT	NOV	DEC	6/30/09
NFDM	0.845	0.852	0.872	0.897	0.927	0.940	0.950	0.8900
WHEY	0.270	0.290	0.300	0.310	0.300	0.300	0.300	N/A
BUTTER	1.206	1.206	1.222	1.260	1.285	1.297	1.325	1.1925

CME SPOT CHEESE: 40 LB BLOCKS 1.1150 / BARRELS 1.1000

ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)

CL I ADV	CLASS II	CLASS III	CLASS IV	ALL-MILK U.S.	ALL-MILK PA
10.26 (JUL)	10.71 (MAY)	9.84 (MAY)	10.14 (MAY)	11.70 (MAY)	13.40 (MAY)
----- MONTH AGO -----					
10.08	10.49	10.78	9.82	11.90	13.40
----- YEAR AGO -----					
20.78	15.51	18.18	15.26	18.30	19.30

CURRENT FEDERAL ORDER VALUES (\$/LB)

WK ENDING 06/19/09	PRODUCT	VALUE	MAKE ALLOW	NET	MAY 2009 COMPONENTS
CHEESE	1.1459	0.2003	0.9456	PROT 1.7454	
BUTTER	1.2187	0.1715	1.0472	B.FAT 1.2648	
NFDM	0.8843	0.1678	0.7165	N.FAT 0.6574	
DRY WHEY	0.2649	0.1991	0.0658	OTHER 0.0336	

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 - June 24, 2009)

COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)
1100	810	1150	1085	1113	650	965	775	N/A
----- FOUR WEEK AVG -----								
1165	810	1140	1125	1160	710	895	900	675

Avg. of prices reported by USDA Market News for PA Auction Markets June 25-30, 2009

CULL MARKET COWS (\$/CWT LIVELINEWEIGHT)

Premium White	Breakers	Boners	Lean
56.50	53.85	51.00	48.25
----- WEEK AGO -----			
56.50	54.00	50.75	47.10
----- YEAR AGO -----			
68.35	63.25	60.25	56.00

FED HOLSTEIN STEERS (\$/CWT LIVELINEWEIGHT) CURRENT WK AGO YR AGO

Choice & Prime 1250-1550 lbs 72.50 73.35 84.00

BULL CALVES: No. 1 & 2, 85-130 lbs 75.75 74.10 80.00

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