

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JUNE 23, 2009 — except where noted



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Do the futures markets predict the price in the future?

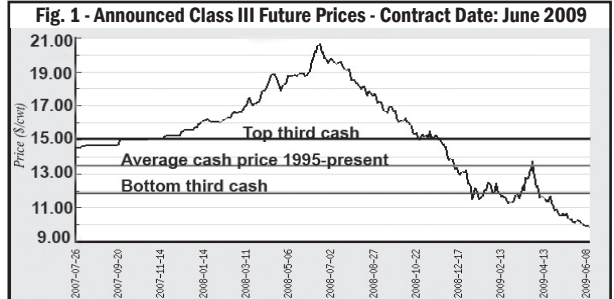
The futures price for any futures contract is determined by a buyer and seller of that contract at a particular time, on a given day. The buyer of a contract could be speculating that the contract price will increase or hedging against a price increase. The seller could be speculating that the contract price will decrease or hedging against a price decrease. When the contract is settled on the Chicago Mercantile Exchange (CME), there is always a willing buyer and a willing seller.

The graph (Fig. 1) shows that over the past two years, the willing buyers and sellers had a wide range of opinions on what 200,000 lbs of milk would be worth at the end of June 2009. All of the participants made their decisions with the best information available at that moment. As we move closer to contract expiration, the information usually becomes more accurate.

We all remember why more milk wasn't price protected in June, July or August of 2008. Oil was over \$100 a barrel, and we were in a "new world." My point is to learn from this, so that in the future when you see a profitable margin, you can act on it. I will caution that those who try to hit the peak are destined to end up in the valley. The goal is to know your costs, determine what a reasonable margin is for you, and then protect profits when they are available in the market.

One thing you can compare is the price on the futures market in relation to the historical average cash price for Class III milk. The horizontal lines in Fig. 1 show the historical average (1995 to present) and the top and bottom thirds of the historical average. June 2009 milk priced any time from January until October of 2008 is above the top third. While this is easy to point out now, pricing decisions are never easy in real time. That is why you need to determine what an appropriate return is for your farm, and then act when that margin is available in the market.

We will discuss the many tools available in future articles. As always, your topics and questions are welcomed.



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 23, 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
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											
9.89	10.28	10.97	12.17	13.17	13.73	14.00	14.20	14.17	14.68	14.79	15.02

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	12.41 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 19, 2009											
1.89	1.88	1.70	1.60	1.23	0.80	0.48	0.36	0.35	0.36	0.16	0.02

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium																							
9.75	0.00	10.00	0.14	10.50	0.34	11.50	0.58	12.25	0.67	13.00	0.78	13.50	0.96	13.25	0.82	13.25	0.88	14.00	1.07	14.25	1.13	14.50	1.27

CORN (\$/BU) OPTIONS — CALLS						SOYMEAL (\$/TON) OPTIONS — CALLS								
2.80	1.053	2.90	1.045	3.10	1.025	N/A	340	37.40	300	36.70	290	32.90	290	33.95
3.15	0.703	3.30	0.680	3.50	0.725	N/A	370	11.00	340	16.70	330	16.20	350	14.25
3.45	0.404	3.70	0.382	4.10	0.391	N/A	380	5.00	390	5.75	390	5.55	430	5.00
3.80	0.092	4.50	0.091	5.40	0.106	N/A	390	1.75	460	1.45	460	1.50	530	1.50

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
3.890	3.972	4.090	4.204	4.284	4.354	4.290	4.222	4.322	4.422	4.380	4.336
WEEK AGO											
4.040	4.126	4.252	4.370	4.445	4.522	4.436	4.352	4.462	4.562	4.510	4.466

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
388.5	361.6	334.6	314.5	308.3	304.4	300.4	295.4	294.9	290.9	284.9	271.0
WEEK AGO											
404.3	371.8	345.3	326.8	319.3	316.8	313.8	308.3	306.3	303.3	298.3	284.5

MILK MARGIN — LATEST PSU VALUES — APR 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 06/23/09										SPOT CASH
FEED COST (\$/COW @ 65 lbs milk)		IOFC (\$/COW @ 65 lbs milk)		MILK MARGIN (as \$/CWT)		JUN	JUL	AUG	SEP	OCT	NOV	DEC	6/23/09	
CURRENT	4.18	4.53	6.97	NFDM	0.845	0.852	0.872	0.897	0.927	0.940	0.950	0.8900		
PREV MO	4.22	4.23	6.51	WHEY	0.266	0.277	0.300	0.305	0.300	0.280	0.280	N/A		
YRAGO	5.75	7.19	11.06	BUTTER	1.212	1.215	1.242	1.275	1.295	1.305	1.335	1.2050		
				CME SPOT CHEESE: 40 LB BLOCKS 1.1175 / BARRELS 1.0700										

* 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 06/19/09*	PRODUCT	VALUE	MAKE ALLOW	NET	MAY 2009	
10.26 (JUL)	10.71 (MAY)	9.84 (MAY)	10.14 (MAY)	11.70 (MAY)	13.40 (MAY)	CHEESE	1.1459	0.2003	0.9456	COMPONENTS		
MONTH AGO						BUTTER	1.2187	0.1715	1.0472	PROT 1.7454		
10.08	10.49	10.78	9.82	11.90	13.40	NFDM	0.8843	0.1678	0.7165	B.FAT 1.2648		
YEAR AGO						DRY WHEY	0.2649	0.1991	0.0658	N.FAT 0.6574		
20.78	15.51	18.18	15.26	18.30	19.30	OTHER 0.0336						

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — June 17, 2009)											
COWS: Fresh		Bred	Springing	HEIFERS: Bred		Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)	
1150	N/A	1050	1050	1200	775	925	N/A	N/A			
FOUR WEEK AVG											
1230	N/A	1150	1135	1220	730	865	1050	770			

FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)				CURRENT	WK AGO	YR AGO
Choice & Prime 1250-1550 lbs				73.35	72.50	81.50
BULL CALVES: No. 1 & 2, 85-130 lbs				74.10	74.85	91.10

CULL MARKET COWS (\$/CWT LIVELWEIGHT)			
Premium White	Breakers	Boners	Lean
56.50	54.00	50.75	47.10
WEEK AGO			
54.50	52.25	49.10	46.25
YEAR AGO			
68.75	63.75	60.50	55.00

brought to you by:



MILC = Milk Income Loss Contract MAY MILC (not shown) is estimated at \$1.52



IOFC = Income Over Feed Cost

* NEW Price Announced

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

Average to high dressing