

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JANUARY 12, 2010 — except where noted

Your Outlook

The graph (below, right) shows the U.S. all milk prices and the number of cows on U.S. farms since 1988. This graph clearly shows the relationship between cow numbers and milk price. When the milk price drops, dairymen cull cows until the milk prices rebounds. The dairy cow herd during this period varied from a low of 8,986,000 head in January of 2004 to a high of 9,335,000 head in July of 2008. This increase of 349,000 cows translates to a 3.9% change in the dairy cow inventory.

The lowest US all milk price for this period was \$11.00/cwt from March through June of 2003. The highest price was \$21.90/cwt in November 2007, a change of 199%. This shows how the size of the US dairy herd influences the total milk supply. The total milk supply then affects the milk price.

As I write this, projected 2010 milk margins have fallen since mid-December. The February Class III milk contract dropped \$.80, the September contract \$.10, and each contract month in between is trading lower than before Christmas. In most 2010 corn contract months, corn futures prices have increased around \$.40. Soybean meal futures have dropped around \$10 for 2010 futures contract months.

Joe Dairyman looks at this and other information to create his own price outlook for 2010. Joe's outlook will change each day as he considers many questions. Will the dairy herd in the

United States continue to decrease? Will the U.S. economy continue to improve? Will oil prices continue to increase? Will he maintain his herd's pregnancy rate? Will next spring's forage increase milk production? As markets create profitable pricing opportunities, Joe will project his outlook to decide which of the various price risk management tools are best suited to protect these potential profits.

The next Dairy Gross Margin sales period is January 29 & 30.

January 31 is the deadline for the AGR/AGRLite Farm and Inventory report. Questions and comments are welcomed.



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Cows on Farms in U.S. vs. U.S. All-Milk Price since 1988



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 — JANUARY 12, 2010 CLOSE

	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10
CLASS III MILK FUTURES (\$/CWT)	14.32	13.65	13.99	14.24	14.67	15.23	15.65	15.78	16.01	15.99	15.78	15.78
	WEEK AGO											
	14.24	13.66	14.22	14.62	14.97	15.49	15.88	15.91	16.09	16.05	15.85	15.36
	HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED											
	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	18.00 9/08	17.20 10/08	16.12 12/09	16.03 12/09	16.05 12/09
	13.23 1/09	13.31 8/09	13.41 8/09	13.58 8/09	13.82 8/09	14.49 8/09	14.71 1/09	14.90 1/09	14.90 1/09	15.05 1/09	15.30 2/09	15.22 2/09
	MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)											
	PA 3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38	2.37	2.87	3.19	3.01
	NY 2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44	1.39	1.79	2.17	1.97
	VT 2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44	1.53	1.99	2.27	1.99
	NJ 2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18	1.17	1.67	1.99	1.81
	DE 2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80	1.79	2.29	2.61	2.43
	MD 2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76	1.75	2.25	2.57	2.39
	OH 2.32	2.15	2.34	0.98	1.25	1.51	1.63	1.26	1.33	1.91	2.31	2.23
	WV 2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20	1.19	1.69	2.01	1.83
	MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Jan. 8, 2010											
	0.00	0.00	0.00	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											
	14.25 0.06	13.50 0.22	13.75 0.36	14.00 0.45	14.50 0.59	15.00 0.65	15.50 0.82	15.75 0.96	16.00 1.04	15.75 0.99	15.75 1.13	15.75 1.18

MILC = Milk Income Loss Contract NOV MILC (not shown) is estimated at \$0.37



	MAR-10	MAY-10	JUL-10	SEP-10		MAR-10	MAY-10	JUL-10	AUG-10			
CORN (\$/BU) OPTIONS — CALLS	3.20 1.025	3.30 1.044	3.40 1.066	3.50 1.055	Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS						
	3.45 0.784	3.60 0.775	4.10 0.556	4.10 0.655		260 37.15	260 35.85	270 31.95	270 33.55			
	3.90 0.384	4.00 0.473	4.80 0.261	5.20 0.254		270 28.35	280 21.55	280 25.90	280 27.70			
	4.45 0.110	5.00 0.101	5.60 0.107	6.20 0.107		290 13.85	300 12.00	310 13.20	310 15.40			
						330 1.90	360 1.80	400 1.85	400 1.90			
CORN FUTURES (\$/BU)	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12
	3.924	4.030	4.112	4.150	4.174	4.262	4.322	4.370	4.294	4.324	4.404	4.474
	WEEK AGO											
	4.186	4.290	4.374	4.416	4.452	4.544	4.602	4.660	4.572	4.512	4.592	4.662
SOYMEAL FUTURES (\$/TON)	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11
	295.4	285.8	280.9	281.8	280.8	278.6	272.8	271.6	272.8	274.8	276.8	277.8
	WEEK AGO											
	319.4	311.4	306.5	306.5	304.5	299.5	290.4	288.4	289.4	291.4	289.4	289.4

* = NEW	MILK MARGIN — LATEST PSU VALUES — NOV 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 01/12/10								SPOT CASH
IOFC = Income Over Feed Cost	FEED COST	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)		JAN	FEB	MAR	APR	MAY	JUN	JUL	01/12/10	
	(Now based on \$/CWT milk)				NFDM	1.280	1.260	1.240	1.240	1.240	1.250	1.3700	
	CURRENT 5.93	6.81	10.47		WHEY	0.385	0.380	0.380	0.370	0.360	0.374	N/A	
	PREV MO 5.82	6.49	9.98		BUTTER	1.335	1.382	1.450	1.455	1.477	1.490	1.3500	
	YR AGO 6.87	8.02	12.31		CME SPOT CHEESE: 40 LB BLOCKS 1.4100 / BARRELS 1.4350								

* = NEW	ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB)					
Jan. 11, 2010 USDA lowers 2010 forecast for Class III: \$14.75-15.55	CL I ADV	CL II	CL III	CL IV	ALL-MILK U.S.	ALL-MILK PA	WK ENDING 12/31/09	PRODUCT	VALUE	MAKE ALLOW	NET	DEC. 2009 COMPONENTS
	15.03 (JAN)	14.25 (DEC)	14.98 (DEC)	15.01 (DEC)	16.30 (DEC)	17.90 (DEC)		CHEESE	1.5969	0.2003	1.3966	PROT 2.8751
	MONTH AGO							BUTTER	1.4459	0.1715	1.2744	B.FAT 1.5433
	13.99	13.24	14.08	13.25	15.30	16.80		NFDM	1.2858	0.1678	1.1180	N.FAT 1.1068
	YEAR AGO							DRY WHEY	0.3668	0.1991	0.1677	OTHER 0.1727
	15.74	11.21	15.28	10.35	15.50	17.10						

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 — (Jan. 6, 2010)									
	COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)	
	1325	1085	1175	1135	1300	495	695	N/A	N/A	
	FOUR WEEK AVG									
	1335	950	1220	1115	1270	540	775	965	715	
	Avg. of prices reported by USDA Market News for PA Auction Markets Jan. 7-12, 2010									
	CULL MARKET COWS (\$/CWT LIVELWEIGHT)				FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)					
	Premium White	Breakers	Boners	Lean	Choice & Prime 1250-1550 lbs	CURRENT			WK AGO	YR AGO
	51.75	48.85	46.50	43.00		72.85	N/A			74.75
	WEEK AGO				BULL CALVES: No. 1 & 2, 85-130 lbs					
	49.75	47.50	44.35	41.35		52.00	58.00			55.00
	YEAR AGO									
	52.35	48.85	46.50	41.85						

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