

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUES., JANUARY 4, 2011 — except where noted

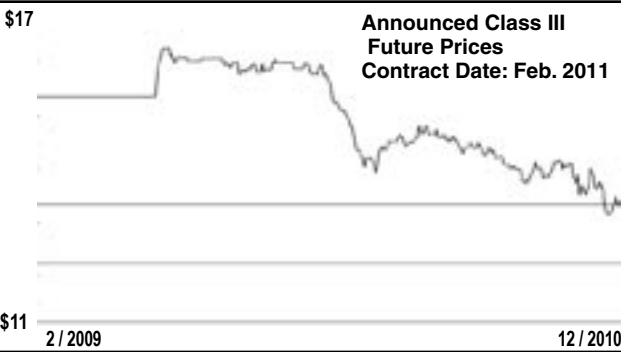


ALAN ZEPP
Risk Management
Program Coordinator
717-420-7448
azepp@centerfor
dairyexcellence.org

New Year's Changes... To begin the New Year, we revised the Markets & Management chart below. It will still show a representative "milk basis" for Pennsylvania. However, to create some space, we have combined the "milk basis" for the other selected Northeast/Mideast states, along with Pennsylvania, to also show an average "basis" instead of listing the "basis" for those states separately as we did last year. The "milk basis" is the difference between Joe Dairyman's mailbox price and the Class III price for that month. We show these basis values to show how Class III milk basis values vary by time of the year and location. Joe's basis will be different from these historical reference values and different from his neighbors' values. He adds the basis value to the Class III price to estimate his future mailbox price. For example: If a July 2011 Class III contract is trading at \$15.48, the July Pennsylvania basis is \$2.61 so Joe could protect a gross mailbox price for July 2011 of \$18.09 with a Dairy Gross Margin (LGM) policy, a Class III contract or a "put" option. The basis values listed below provide a rough estimate for educational purposes.

for the "expected margin" and the actual margin calculation. The "expected margins" range from \$10.14/cwt for Mar. 2011 to \$12.14 for Nov. 2011 today. What if feed prices continue to increase?

The graph (below) shows the Feb. 2011 Class III milk contract. Any suggestions on information you would like to have included in this chart and topics for discussion would be appreciated. I am available to meet and discuss the various ways to manage risks. Make your resolution to improve your understanding of the pricing tools that can reduce the effect of market volatility in your business. There is more information at www.centerfordairyexcellence.org



New this year to the chart below: We are adding the "expected gross margin values" for the upcoming sales period and the 10-year average of those actual gross margin values as a reference for comparison. Dairy Gross Margin Insurance (LGM) allows default values which assume that 1/2 bushel of corn equivalent and 4 lb of soybean meal equivalent will produce 100 lbs of milk. These example margins always use the default values and \$0 deductible

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 4, 2011 CLOSE

	JAN-11	FEB-11	MAR-11	APR-11	MAY-11	JUN-11	JUL-11	AUG-11	SEP-11	OCT-11	NOV-11	DEC-11
CLASS III MILK FUTURES (\$/CWT)	13.18	13.69	14.07	14.61	14.78	15.18	15.59	15.62	15.71	15.71	15.71	15.70
	----- WEEK AGO -----											
	13.10	13.42	13.72	14.24	14.50	14.70	15.19	15.40	15.56	15.61	15.55	15.46
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	16.33 7/09	16.25 7/09	16.00 7/09	16.24 7/09	16.24 7/09	15.80 8/09	15.99 12/09	15.82 1/10	15.86 10/09	15.90 10/09	15.95 12/09	15.95 12/09
	13.02 12/10	13.16 12/10	13.57 12/10	13.71 9/10	13.77 9/10	13.90 9/10	14.20 9/10	14.50 9/10	14.58 9/10	14.51 9/10	14.40 9/10	14.40 9/10
MILK BASIS (\$/CWT) — PA & AVG OF 7 NORTHEAST/MIDEAST STATES (2008 Historical Reference - Individual basis will vary)	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
	*AVG 2.67	2.35	2.51	1.16	1.46	1.79	1.80	1.56	1.57	2.06	2.39	2.21
MARGIN = Milk Price over Feed Cost per cwt.	EXPECTED GROSS MARGINS PER CWT. (default values at \$0.00 deductible) projected on Jan. 4, 2011											
	N/A	N/A	10.14	10.53	10.64	10.92	11.36	11.69	11.98	12.12	12.14	11.96
	10-YEAR AVERAGE ACTUAL GROSS MARGINS* PER CWT. (default values at \$0.00 deductible)											
	11.02	10.57	10.71	11.02	11.43	11.74	11.71	11.75	12.25	12.04	11.53	11.81
MILK PAYMENT (\$/CWT) FORECASTS Based on Futures as of Tues., Jan. 4, 2011; *Jan. * CII "mover" based on Dec. CI IV advance	*0.48*	0.61	0.74	0.49	0.52	0.59	0.59	0.60	0.48	0.41	0.30	0.17
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	13.00 0.03	13.50 0.21	14.00 0.50	14.50 0.58	14.75 0.72	15.00 0.75	15.50 0.87	15.50 0.92	15.50 0.93	15.50 1.05	15.50 1.10	15.50 1.16

	MAR-11	MAY-11	JUL-11	SEP-11		MAR-11	MAY-11	JUL-11	AUG-11
CORN (\$/BU) OPTIONS — CALLS	5.10 1.032	5.30 1.037	5.50 1.054	5.20 1.021	Example Daily Strike Price / Premium	340 33.25	350 33.85	350 39.55	350 35.95
	5.50 0.711	5.70 0.781	6.20 0.711	5.80 0.755		350 26.45	370 24.15	370 30.50	360 31.90
	6.10 0.361	6.20 0.532	7.10 0.420	6.80 0.450		370 15.80	400 14.35	420 15.90	410 17.35
	7.00 0.110	8.20 0.103	9.30 0.114	9.00 0.134		440 2.10	490 2.20	550 2.75	540 2.10
SOYMEAL (\$/TON) OPTIONS — CALLS	340 33.25	350 33.85	350 39.55	350 35.95		340 33.25	350 33.85	350 39.55	350 35.95

	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12	SEP-12	DEC-12	MAR-13	MAY-13
CORN FUTURES (\$/BU)	6.084	6.166	6.206	5.760	5.434	5.516	5.580	5.640	5.264	5.084	5.184	5.244
	----- WEEK AGO -----											
	6.152	6.230	6.264	5.794	5.32	5.606	5.656	5.706	5.414	5.124	5.204	5.284

	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11	OCT-11	DEC-11	JAN-12	MAR-12	MAY-12	JUL-12
SOYMEAL FUTURES (\$/TON)	364.7	367.8	369.4	369.9	360.0	348.9	333.0	330.5	330.5	330.5	328.5	328.5
	----- WEEK AGO -----											
	366.4	370.3	371.0	371.4	361.7	349.1	331.5	328.5	328.8	329.1	327.1	327.1

*NEW IOFC = Income Over Feed Cost	MILK MARGIN — *LATEST PSU VALUES — NOV. 2010			CME DAIRY CASH-SETTLED FUTURES (\$/LB) 01/04/11							SPOT CASH
	FEED COST	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)	JAN	FEB	MAR	APR	MAY	JUN	JUL	01/04/11
	(Now based on \$/CWT milk)			NFDM 1.230	1.250	1.297	1.300	1.300	1.300	1.300	1.2700
	CURRENT 6.17	9.05	13.93	WHEY 0.387	0.407	0.430	0.435	0.440	0.435	0.430	N/A
	PREV MO 6.76	8.93	13.74	BUTTER 1.710	1.750	1.775	1.810	1.810	1.790	1.800	1.7000
	YR AGO 5.88	7.10	10.92	CME SPOT CHEESE: 40 LB BLOCKS 1.3425 / BARRELS 1.3400							

12/25/10 PRICES WORLD VS. NASS \$ PER POUND	*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB)					
	CL I ADV	*CL II	*CL III	*CL IV	*ALL-MILK U.S.	*ALL-MILK PA	WEIGHTED AVG - DEC. 1-30, 2010			DEC. 2010		
BUTTER \$2.51 \$1.64	15.20 (JAN)	*15.77 (DEC)	*13.83 (DEC)	*15.03 (DEC)	*16.80 (DEC)	*19.30 (DEC)	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS	
CHEDDAR \$1.88 \$1.42			MONTH AGO				CHEESE	1.4606	0.2003	1.2603	PROT 2.1706	
SMP \$1.58 N/A	16.96	17.21	15.44	16.68	17.90	*20.20	BUTTER	1.6539	0.1715	1.4824	B.FAT 1.7942	
NDM N/A \$1.15			YEAR AGO				NFDM	1.1848	0.1678	1.0170	N.FAT 1.0068	
DRY WHEY \$0.49 \$0.38	15.03	14.25	14.98	15.01	16.50	17.90	DRY WHEY	0.3789	0.1991	0.1798	OTHER 0.1852	

Price averages do not include lower-end common cows and heifers.	CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales Dec. 29, 2010 at New Holland, PA)											
	COWS: Fresh			Bred			Springing		HEIFERS: Bred			
	1375	N/A	N/A	N/A	N/A	N/A	N/A	N/A				
	----- FOUR WEEK AVG -----											
	1375	1085	1210	1050	1185	400	675	875				
	Avg. of prices reported by USDA Market News for PA Auction Markets Dec. 30, 2010 - Jan. 4, 2011			FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)			CURRENT	WK AGO	YR AGO			
	CULL MARKET COWS (\$/CWT LIVELWEIGHT)			Choice & Prime 1250-1550 lbs			86.75	85.25	N/A			
	Premium White	Breakers	Boners	Lean	BULL CALVES: No. 1 & 2, 90-130 lbs			103.00	99.00	57.00		
	67.35	62.75	59.50	55.00	80-90 lbs			60.00	45.00	38.00		
	----- WEEK AGO -----											
	65.25	61.75	59.60	56.75	----- YEAR AGO -----							
	49.75	47.50	44.35	41.35								

brought to you by: