

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUES., JANUARY 10, 2012 — except where noted



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2012 Marketing Plan

As Joe Dairyman wraps up harvest and his books for 2011 he is looking ahead to 2012. This is the time to plan and prepare for the upcoming year. Joe takes inventory of all business assets each January to create that year's balance sheet. This inventory helps him to project into next year.

Joe has ten more heifers than last year but less corn silage and hay than January 1, 2011. Last spring and summer he had plenty of forage but this year's inventory tells him that he must allocate his corn silage. His options are; grow more spring forage than last year to feed his cows or sell some heifers.

Joe's marketing plan will also affect his decision on whether to milk or sell those heifers. Joe's worst case scenario would be; to retain and milk the heifers himself, have feed prices increase like they did last year, then see milk prices decline. Joe will not milk the ten additional heifers unless he has the security of a profitable margin on his 2012 milk production.

Joe's marketing plan started with the Dairy Gross Margin Insurance policy that he purchased last November. This policy protects profits on half of his milk production through September 2012. Joe will use a combination of futures and options contracts to protect profits on the remainder of his expected production. Today, Joe is more concerned about milk prices

declining and feed costs increasing than he is about losing upside on the milk price. To protect the other half of his 2012 expected milk production, he will contract a fixed price with his cooperative for some of the months. Joe will build a "fence" or "min max" contract to protect the price on his remaining production. Joe will purchase corn and soy bean meal as price "dips" occur. What is your plan for 2012? Will you be ready for unexpected changes in milk or feed prices?

Call me if you would like to schedule a meeting to discuss ways to manage price risk this winter. For tools and information to improve your dairy farm business, look at www.centerfordairyexcellence.org



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 10, 2012 CLOSE

	JAN-12	FEB-12	MAR-12	APR-12	MAY-12	JUN-12	JUL-12	AUG-12	SEP-12	OCT-12	NOV-12	DEC-12
CLASS III MILK FUTURES (\$/CWT)	17.12	17.34	17.69	17.65	17.50	17.46	17.44	17.44	17.44	17.14	17.09	17.12
	----- WEEK AGO -----											
	17.14	17.59	17.55	17.39	17.25	17.19	17.34	17.32	17.38	17.07	17.05	17.08
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	17.93 11/11	17.75 01/12	17.87 01/12	17.72 01/12	17.50 01/12	17.50 01/12	17.44 01/12	17.44 01/12	17.48 01/12	17.25 09/11	17.25 09/11	17.17 09/11
	14.65 09/10	14.65 12/10	14.88 12/10	14.90 12/10	14.90 12/10	15.30 12/10	15.44 12/10	15.45 12/10	15.47 10/10	15.45 11/10	15.47 12/10	15.49 12/10
MILK BASIS (\$/CWT) — PA & AVG OF 8 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. 5, 6 and 7, 2011											
	N/A	N/A	13.81	13.66	13.47	13.42	13.41	13.55	13.73	13.48	13.52	13.57
	10-YEAR AVERAGE ACTUAL GROSS MARGINS* PER CWT. (default values at \$0.00 deductible)											
	11.68	11.02	10.57	10.71	11.02	11.43	11.74	11.71	11.81	12.36	12.21	11.58
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Jan. 10, 2012; *CI I "mover" based on previous month's CI IV advance	0.00	0.0195	0.0713	0.00	0.00	0.00	0.0256	0.00	0.00	N/A	N/A	N/A



***AVG =** Average basis for North-East and Mid-East
***MARGIN =** Milk Price over Feed Cost per cwt.

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per CME Group website data)	17.00	0.03	17.25	0.37	17.50	0.60	17.50	0.75	17.50	0.94	17.25	0.94	17.25	1.05	17.25	1.12	17.25	1.21	17.00	1.27	17.00	1.36	17.00	1.41
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MAR-12	MAY-12	JUL-12	SEP-12	Example Daily Strike Price / Premium	JAN-12	MAR-12	MAY-12	JUL-12			
CORN (\$/BU) OPTIONS — CALLS					SOYMEAL (\$/TON) OPTIONS — CALLS						
5.50	1.043	5.60	1.057	260	38.40	290	34.85	290	39.30	300	37.05
5.90	0.696	6.00	0.747	270	28.40	300	26.20	310	24.85	330	20.00
6.50	0.316	6.60	0.404	285	12.05	320	13.00	330	14.50	360	10.15
7.20	0.103	7.70	0.104	320	0.05	370	1.75	400	1.90	440	1.65

MAR-12	MAY-12	JUL-12	SEP-12	DEC-12	MAR-13	MAY-13	JUL-13	SEP-13	DEC-13	MAR-14	MAY-14
CORN FUTURES (\$/BU)											
6.520	6.592	6.644	6.130	5.864	5.984	6.056	6.104	5.802	5.636	5.736	5.796
----- WEEK AGO -----											
6.584	6.670	6.736	6.180	5.900	6.020	6.092	6.134	5.892	5.720	5.820	5.880

JAN-12	MAR-12	MAY-12	JUL-12	AUG-12	SEP-12	OCT-12	DEC-12	JAN-13	MAR-13	MAY-13	JUL-13
SOYMEAL FUTURES (\$/TON)											
319.0	322.5	325.1	328.0	327.0	325.2	320.6	319.7	321.2	324.3	326.0	328.0
----- WEEK AGO -----											
315.8	319.2	321.6	324.4	324.2	322.7	318.2	317.6	319.2	322.7	324.7	326.7

*NEW MILK MARGIN — LATEST PSU VALUES — NOV. 2011	CME DAIRY CASH-SETTLED FUTURES (\$/LB) 01/10/12				SPOT CASH					
*FEED COST	*IOFC (\$/COW @ 65 lbs milk)	*PA MILK MARGIN (\$/CWT milk)	JAN	FEB	MAR	APR	MAY	JUN	JUL	01/10/12
(Now based on \$/CWT milk)			NFDM 1.405	1.400	1.405	1.405	1.410	1.400	1.392	1.4500
CURRENT 8.43	8.63	13.27	WHEY 0.680	0.705	0.705	0.682	0.650	0.615	0.565	N/A
PREV MO 8.44	8.95	13.76	BUTTER 1.630	1.655	1.670	1.705	1.720	1.730	1.745	1.6400
YR AVO 6.72	8.76	13.48	CME SPOT CHEESE: 40 LB BLOCKS 1.5950 / BARRELS 1.5800							

USDA *SEPT. 2011* MAILBOX MILK PRICE	*NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB) NEW							
ALL-MILK MAILBOX	CL I ADV	CL II	CL III	CL IV	ALL-MILK U.S	ALL-MILK PA	WEIGHTED AVG NOV 28-	DEC 23, 2011	DEC. 2011	PRODUCT VALUE	MAKE ALLOW	NET	COMPONENTS	
U.S. \$21.10 \$21.39	18.80(JAN)	18.08(DEC)	18.77(DEC)	16.87(DEC)	19.80(DEC)	21.80(DEC)	1.8070	0.2003	1.6067	CHEESE	1.8070	0.2003	1.6067	PROT 3.3404
PA \$23.80 \$22.31	----- MONTH AGO -----						BUTTER	1.6119	0.1715	1.4404	B.FAT	1.7443		
NY \$23.00 \$21.30	----- YEAR AGO -----						NFDM	1.4201	0.1678	1.2523	N.FAT	1.2398		
N. ENGL \$23.00 \$22.69	15.20	15.77	13.83	15.03	16.70	18.90	DRY WHEY	0.6538	0.1991	0.4547	OTHER	0.4683		
OH \$22.90 \$22.24														
APPAL \$25.30 \$23.98														

Price averages do not include lower-end common cows and heifers.	CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales Jan. 4, 2011 at New Holland, PA)																										
	COWS: Fresh			Bred			Springing			HEIFERS: Bred			Springing			Open: 300-600 lbs			600-900 lbs			900-1200 lbs			BULLS (600-1200 lb)		
	1575	1400	1575	1190	1375	N/A	725	N/A	1015																		
	----- FOUR WEEK AVG -----																										
	1465	1400	1365	1285	1365	560	690	840	930																		
	Avg. of prices reported by USDA Market News for PA Auction Markets Jan. 5-10, 2012																										
	CULL MARKET COWS (\$/CWT LIVELWEIGHT)																										
	Premium White	Breakers	Boners	Lean																							
	82.35	77.60	72.50	65.85																							
	----- WEEK AGO -----																										
	80.50	76.00	71.35	64.75																							
	----- YEAR AGO -----																										
	65.00	60.40	57.50	52.50																							

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