

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUES., AUGUST 17, 2010 — except where noted



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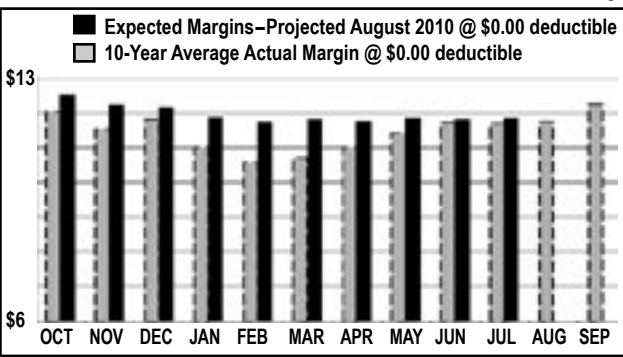
**Aberration (continued)** — Joe Dairyman asks these questions as he plans his business future: When will consumer confidence return to normal levels? Will consumers eat enough cheese to bring inventories back to normal soon? When will the economy create enough new jobs to return the unemployment rate to normal levels? Will the U.S. find a source of energy to replace ethanol so grain prices can return to normal? No one really knows these answers. The overall economy controls the demand for dairy products, interest rate levels and the cost of inputs like feed and fuel. Even when times are not normal, Joe's business goals are to keep his cost of production low and to protect a profit whenever the markets present an opportunity. He manages these risks with a combination of LGM policies, milk puts, feed calls, and contracts for milk and feed.

- Some things to consider:**
- The policy-making Federal Open Market Committee said the recovery "has slowed in recent months," and that the "pace of economic recovery is likely to be more modest in the near term than had been anticipated."
  - China could be about to increase its corn imports.
  - Forecast milk production for 2010 and 2011 is raised from last month. Producers continue to add cows and the rate of growth in milk per cow has increased. Exports for 2010 and 2011 are raised sharply as June exports were strong.
  - August 27 and 28 is the next Dairy Gross Margin (LGM)

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.

Sales period.  
- September 30, 2010 is the deadline to enroll or make any 2011 policy changes to fall seeded wheat, barley and alfalfa based forage production policies as well as the new Pasture, Hay and Forage insurance policies now available in all of Pennsylvania.

This week's graph projects margins for the upcoming 10 months as compared to the 10-year average. I am available to discuss various ways you can manage your risks and welcome your suggestions or comments.



## CME DAILY FUTURES & OPTIONS TRADING — AUGUST 17, 2010 CLOSE

|  | AUG-10     | SEP-10      | OCT-10     | NOV-10      | DEC-10      | JAN-11     | FEB-11     | MAR-11     | APR-11     | MAY-11     | JUN-11     | JUL-11      |
|--|------------|-------------|------------|-------------|-------------|------------|------------|------------|------------|------------|------------|-------------|
| <b>CLASS III MILK FUTURES (\$/CWT)</b>   | 15.07      | 15.32       | 15.06      | 14.71       | 14.56       | 14.20      | 14.08      | 14.05      | 14.13      | 14.22      | 14.26      | 14.50       |
|  | 15.06      | 15.51       | 15.13      | 14.84       | 14.72       | 14.35      | 14.24      | 14.22      | 14.40      | 14.42      | 14.43      | 14.61       |
| WEEK AGO   |            |             |            |             |             |            |            |            |            |            |            |             |
| HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED   |            |             |            |             |             |            |            |            |            |            |            |             |
|  | 18.00 9/08 | 17.20 10/08 | 16.26 1/10 | 16.03 12/09 | 16.05 12/09 | 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 |
|  | 13.57 6/10 | 14.25 6/10  | 14.36 3/10 | 14.40 3/10  | 14.30 3/10  | 13.90 3/10 | 13.93 3/10 | 14.05 8/10 | 14.06 3/10 | 14.19 8/10 | 14.23 8/10 | 14.40 6/10  |
| <b>MILK BASIS (\$/CWT) — SELECTED NORTHEAST &amp; MID-ATLANTIC STATES (2008 Historical Reference)</b>                            |            |             |            |             |             |            |            |            |            |            |            |             |
| PA   | 2.38       | 2.37        | 2.87       | 3.19        | 3.01        | 3.40       | 3.19       | 3.32       | 1.94       | 2.23       | 2.63       | 2.61        |
| NY   | 1.44       | 1.39        | 1.79       | 2.17        | 1.97        | 2.32       | 2.11       | 2.32       | 1.04       | 1.43       | 1.57       | 1.61        |
| VT   | 1.44       | 1.53        | 1.99       | 2.27        | 1.99        | 2.38       | 2.15       | 2.42       | 1.10       | 1.39       | 1.69       | 1.71        |
| NJ   | 1.18       | 1.17        | 1.67       | 1.99        | 1.81        | 2.20       | 1.99       | 2.12       | 0.74       | 1.03       | 1.43       | 1.41        |
| DE   | 1.80       | 1.79        | 2.29       | 2.61        | 2.43        | 2.82       | 2.61       | 2.74       | 1.36       | 1.65       | 2.05       | 2.03        |
| MD   | 1.76       | 1.75        | 2.25       | 2.57        | 2.39        | 2.78       | 2.57       | 2.70       | 1.32       | 1.61       | 2.01       | 1.99        |
| OH   | 1.26       | 1.33        | 1.91       | 2.31        | 2.23        | 2.32       | 2.15       | 2.34       | 0.98       | 1.25       | 1.51       | 1.63        |
| WV   | 1.20       | 1.19        | 1.69       | 2.01        | 1.83        | 2.22       | 2.01       | 2.14       | 0.76       | 1.05       | 1.45       | 1.43        |
| <b>MILC PAYMENT (\$/CWT) FORECASTS</b> Based on Futures as of Wed., Aug. 4, 2010; *July & August* based on CI IV as CI I "mover" |            |             |            |             |             |            |            |            |            |            |            |             |
|  | *0.00*     | 0.00        | 0.00       | 0.00        | 0.00        | 0.00       | 0.00       | 0.00       | 0.0360     | 0.00       | 0.0542     | 0.0622      |
| <b>CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium</b>   |            |             |            |             |             |            |            |            |            |            |            |             |
|  | 15.00 0.03 | 15.25 0.23  | 15.00 0.43 | 14.50 0.49  | 14.50 0.62  | 14.00 0.61 | 14.00 0.72 | 14.00 0.79 | 14.00 0.80 | 14.00 0.82 | 14.25 0.98 | 14.50 1.05  |

|                                     | SEP-10     | DEC-10     | MAR-11     | MAY-11     |  | SEP-10                                  | OCT-10    | DEC-10    | JAN-11    |           |
|-------------------------------------|------------|------------|------------|------------|--|---|-----------|-----------|-----------|-----------|
| <b>CORN (\$/BU) OPTIONS — CALLS</b> | 3.05 1.023 | 3.20 1.043 | 3.40 1.032 | 3.50 1.041 | Example<br>Daily Strike<br>Price / Premium | <b>SOYMEAL (\$/TON) OPTIONS — CALLS</b> | 270 32.30 | 260 36.10 | 260 37.85 | 260 37.20 |
|                                     | 3.35 0.723 | 3.60 0.696 | 3.90 0.667 | 4.00 0.712 |  |   | 280 22.45 | 280 18.65 | 280 22.70 | 280 22.85 |
|                                     | 3.70 0.377 | 4.30 0.287 | 4.40 0.425 | 4.50 0.482 |  |   | 290 12.95 | 300 7.75  | 300 12.55 | 300 13.15 |
|                                     | 4.15 0.067 | 5.10 0.104 | 5.90 0.121 | 6.50 0.120 |  |   | 310 2.00  | 330 1.75  | 360 1.95  | 360 1.75  |

|                             | SEP-10 | DEC-10 | MAR-11 | MAY-11 | SEP-11 | DEC-11 | MAR-12 | MAY-12 | JUL-12 | SEP-12 | DEC-12 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>CORN FUTURES (\$/BU)</b> | 4.146  | 4.300  | 4.434  | 4.506  | 4.476  | 4.404  | 4.514  | 4.576  | 4.626  | 4.472  | 4.314  |
|                             | 3.934  | 4.090  | 4.230  | 4.314  | 4.354  | 4.330  | 4.436  | 4.504  | 4.560  | 4.426  | 4.294  |
| WEEK AGO                    |        |        |        |        |        |        |        |        |        |        |        |

|                                 | SEP-10 | OCT-10 | DEC-10 | JAN-11 | MAR-11 | MAY-11 | JUL-11 | AUG-11 | SEP-11 | OCT-11 | DEC-11 | JAN-12 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>SOYMEAL FUTURES (\$/TON)</b> | 306.5  | 299.9  | 299.8  | 298.2  | 297.4  | 295.6  | 296.5  | 293.5  | 289.0  | 282.0  | 283.4  | 288.1  |
|                                 | 296.3  | 289.7  | 289.8  | 288.8  | 288.8  | 287.6  | 288.2  | 286.2  | 282.7  | 275.7  | 275.7  | N/A    |
| WEEK AGO                        |        |        |        |        |        |        |        |        |        |        |        |        |

| * = NEW<br>IOFC =<br>Income<br>Over<br>Feed<br>Cost | <b>MILK MARGIN — LATEST PSU VALUES — JUNE 2010</b> |                                |                                 |  | <b>CME DAIRY CASH-SETTLED FUTURES (\$/LB) 08/17/10</b>       |       |       |       |       |       |       |       |        |     | <b>SPOT CASH</b> |          |
|---|--|--------------------------------|---------------------------------|--|--|-------|-------|-------|-------|-------|-------|-------|--------|-----|------------------|----------|
|   | FEED COST<br>(Now based on \$/CWT milk)            | IOFC (\$/COW<br>@ 65 lbs milk) | PA MILK MARGIN<br>(\$/CWT milk) |  | AUG  | SEP   | OCT   | NOV   | DEC   | JAN   | FEB   | MAR   | APR    | MAY | JUN              | 08/17/10 |
| CURRENT   | 5.69   | 7.94                           | 12.21                           |  | NFDM   | 1.165 | 1.162 | 1.175 | 1.185 | 1.170 | 1.157 | 1.155 | 1.2100 |     |                  | 1.2100   |
| PREV MO   | 5.44   | 7.45                           | 11.46                           |  | WHEY   | 0.360 | 0.365 | 0.360 | 0.350 | 0.350 | 0.342 | 0.332 | N/A    |     |                  | N/A      |
| YR AGO  | 6.54   | 4.13                           | 6.36                            |  | BUTTER   | 1.840 | 1.900 | 1.885 | 1.810 | 1.697 | 1.610 | 1.590 | 1.9250 |     |                  | 1.9250   |
|   |  |                                |                                 |  | <b>CME SPOT CHEESE: 40 LB BLOCKS 1.6200 / BARRELS 1.5850</b> |       |       |       |       |       |       |       |        |     |                  |          |

| JULY RETAIL DAIRY<br>PRICES vs ALL-MILK | * = 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 AVERAGE - JUL 1-23, 2010    | JULY 2010 |           |        |              |  |
| FLUID-gal                               | 15.77 (AUG)                                     | 17.10 (JUL) | 13.74 (JUL) | 15.75 (JUL) | 16.00 (JUL)   | 17.80 (JUL) |  | PRODUCT                              | VALUE     | MAKEALLOW | NET    | COMPONENTS   |  |
| BUTTER-lb                               | 15.66   | 16.01       | 13.62       | 15.45       | 15.50         | 17.50       |  | CHEESE                               | 1.4567    | 0.2003    | 1.2564 | PROT 2.0515  |  |
| CHEDDAR-lb                              |   |             | 13.62       | 15.45       | 15.50         | 17.50       |  | BUTTER                               | 1.7375    | 0.1715    | 1.5660 | B.FAT 1.8964 |  |
| ICREAM-1/2gal                           | 10.04   | 10.87       | 9.97        | 10.15       | 11.30         | 13.00       |  | NFDM                                 | 1.2277    | 0.1678    | 1.0599 | N.FAT 1.0493 |  |
| *ALL-MILK*                              |   |             |             |             |               |             |  | DRY WHEY                             | 0.3641    | 0.1991    | 0.1650 | OTHER 0.1700 |  |

| Price<br>averages<br>do not<br>include<br>lower-end<br>common<br>cows and<br>heifers. | <b>CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales Aug. 11, 2010 at New Holland, PA)</b> |          |        |       |      |     |           |     |     |               |  |  |  |
|---|--|----------|--------|-------|------|-----|-----------|-----|-----|---------------|--|--|--|
|   | COWS: Fresh  |          |        | Bred  |      |     | Springing |     |     | HEIFERS: Bred |  |  |  |
|   | 1200   | N/A      | N/A    | 1100  | 1250 | 515 | 625       | N/A | 650 |               |  |  |  |
|   | 1175   | N/A      | 1035   | 1110  | 1165 | 515 | 585       | 850 | 650 |               |  |  |  |
|   | Avg. of prices reported by USDA Market News for PA Auction Markets Aug. 12-17, 2010                          |          |        |       |      |     |           |     |     |               |  |  |  |
|   | <b>CULL MARKET COWS (\$/CWT LIVELWEIGHT)</b>   |          |        |       |      |     |           |     |     |               |  |  |  |
|   | Premium White  | Breakers | Boners | Lean  |      |     |           |     |     |               |  |  |  |
|   | 63.10  | 59.60    | 56.10  | 53.00 |      |     |           |     |     |               |  |  |  |
|   | WEEK AGO   |          |        |       |      |     |           |     |     |               |  |  |  |
|   | 61.25  | 58.00    | 55.60  | 52.60 |      |     |           |     |     |               |  |  |  |
|   | YEAR AGO   |          |        |       |      |     |           |     |     |               |  |  |  |
|   | 52.25  | 51.75    | 48.50  | 45.00 |      |     |           |     |     |               |  |  |  |

brought to you by: