

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — APRIL 27, 2010 — except where noted



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

Dairy LGM - 'Cash Flow Insurance' continued

As I wrote last week, Dairy Livestock Gross Margin (LGM) insurance does not need to be complex. The first step is to understand the concept of insuring a *margin* which is simply the income over feed cost for every hundredweight of milk. Once you understand that number, ask a crop insurance agent to go over how the policy works.

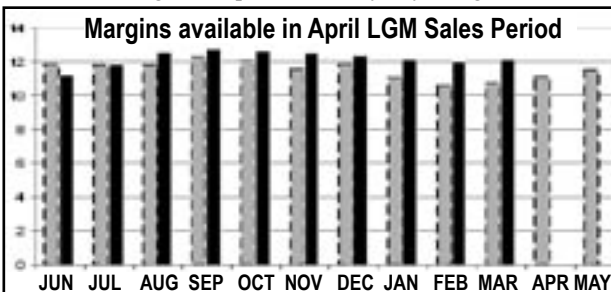
The question is, "when should you buy LGM?" Each farm business is different, so there are many correct answers to this question. Here is one strategy that I call **Cash Flow Insurance**. Do you ask, "When should I buy fire or liability insurance?" Most dairy farms use insurance to manage risks from fire, accidents, crop failure and liability. Dairy Gross Margin Insurance can insure cash flow when actual milk margins drop below expected margins.

Using the University of Wisconsin's LGM premium calculator at the "Understanding Dairy Markets" website, I looked at buying coverage for one month's production from a 100 cow herd each and every month spread over the 10 month sales period. In this hypothetical example, using default feed values, 10% of one month's production was purchased in each of the 10 policy months for each monthly sales period since February 2000. The average premium over those 10 years was \$.62/cwt. The average indemnity payment was \$.79/cwt. So if Dairy LGM

were available during this time frame, Joe Dairyman could have protected cash flow at no net cost.

This is a strategy for those who don't have the time or interest to study when to move into or out of the markets. LGM can simply become cash flow insurance by providing insurance indemnity payments when the milk margins (and milk checks) are small.

This week's graph (below) compares expected Dairy LGM margins (**black bars**) for the April sales period to the 10-year average (**gray bars**). The next Dairy LGM sales period is April 30-May 1. Note: Remember to report any winterkill damage to crops immediately to your agent.



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 — APRIL 27, 2010 CLOSE

	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
CLASS III MILK FUTURES (\$/CWT)	12.93	13.49	14.00	14.65	15.15	15.26	15.10	14.97	14.77	14.58	14.50	14.63
	----- WEEK AGO -----											
	12.85	13.14	13.54	14.20	14.95	15.26	15.22	14.95	14.90	14.80	14.59	14.76
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	19.60 6/08	19.50 6/08	19.20 7/08	19.20 7/08	18.00 9/08	17.20 10/08	16.26 1/10	16.03 12/09	16.05 12/09	16.33 7/09	16.25 7/09	16.00 7/09
	12.35 3/10	12.75 3/10	13.12 4/10	13.64 3/10	14.00 3/10	14.40 3/10	14.36 3/10	14.40 3/10	14.30 3/10	13.90 3/10	13.93 3/10	14.14 3/10
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	1.94	2.23	2.63	2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32
NY	1.04	1.43	1.57	1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32
VT	1.10	1.39	1.69	1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42
NJ	0.74	1.03	1.43	1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12
DE	1.36	1.65	2.05	2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74
MD	1.32	1.61	2.01	1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70
OH	0.98	1.25	1.51	1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34
WV	0.76	1.05	1.45	1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., April 23, 2010; *MAY* is based on CI IV as FMMO CI I "mover"	0.2115	*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	12.75 0.00	13.25 0.06	14.00 0.46	14.50 0.52	15.00 0.71	15.25 0.89	15.00 0.82	14.75 0.74	14.75 0.88	14.50 0.87	14.50 0.95	14.50 0.94

	JUL-10	SEP-10	DEC-10	MAR-11		JUL-10	AUG-10	SEP-10	OCT-10	
CORN (\$/BU) OPTIONS — CALLS	2.50 1.095	2.60 1.093	2.70 1.082	2.90 1.042	Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS				
	3.00 0.604	3.10 0.631	3.20 0.654	3.30 0.715		260 36.05	260 34.75	260 31.90	250 33.40	
	3.50 0.223	3.60 0.301	3.70 0.363	3.80 0.446		270 27.45	270 27.15	270 25.25	260 26.85	
	3.80 0.103	4.30 0.102	4.80 0.100	5.00 0.124		290 13.70	280 20.65	280 19.80	270 21.10	
						340 1.85	360 1.90	380 1.80	370 1.85	

	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12
CORN FUTURES (\$/BU)	3.474	3.536	3.614	3.690	3.820	3.910	3.980	3.964	3.940	4.030	4.100	4.144
	----- WEEK AGO -----											
	3.554	3.652	3.750	3.852	3.976	4.062	4.124	4.106	4.102	4.192	4.262	4.322

	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11
SOYMEAL FUTURES (\$/TON)	287.0	286.8	283.9	278.1	269.7	269.0	269.0	269.9	269.4	270.4	270.5	268.0
	----- WEEK AGO -----											
	287.5	287.3	284.4	278.9	270.1	268.6	269.3	271.1	271.9	273.9	274.4	273.0

* = NEW IOFC = Income Over Feed Cost	MILK MARGIN — LATEST PSU VALUES — MAR 2010			CME DAIRY CASH-SETTLED FUTURES (\$/LB) 04/27/10								SPOT CASH
	FEED COST	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)	APR	MAY	JUN	JUL	AUG	SEP	OCT	04/27/10	
CURRENT	6.05	7.31	11.25	NFDM 1.110	1.167	1.230	1.250	1.250	1.270	1.272	1.2975	
PREV MO	5.95	7.90	12.15	WHEY 0.366	0.357	0.345	0.345	0.350	0.355	0.355	N/A	
YR AGO	6.44	4.27	6.56	BUTTER 1.480	1.580	1.610	1.630	1.630	1.620	1.625	1.5800	
				CME SPOT CHEESE: 40 LB BLOCKS 1.3850 / BARRELS 1.3525								

USDA REPORTS: FINAL JANUARY 2010	* = 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	APR. 1-16, 2010	MAR. 2009	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS
U.S.	\$16.10	\$16.16	\$13.80 (MAY)	14.46 (MAR)	12.78 (MAR)	12.92 (MAR)	15.10 (MAR)	17.30 (MAR)	1.3900	0.2003	1.1897			PROT 2.1311
PA	\$18.00	\$16.72							1.3900	0.2003	1.1897			PROT 2.1311
NY	\$16.80	\$15.97	13.22	15.65	14.28	12.90	15.90	18.10	1.4861	0.1715	1.3146			B.FAT 1.5347
N.ENGL	\$17.50	\$17.03							1.1250	0.1678	0.9572			N.FAT 0.8688
OH	\$17.80	\$16.92							0.3636	0.1991	0.1645			OTHER 0.1823
APPAL	\$19.10	\$17.76	10.97	10.36	10.44	9.64	11.80	13.00						

Price averages do not include lower-end common cows and heifers.	CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales April 21, 2010 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)	
	1325	N/A	N/A	N/A	N/A	450	640	965	N/A	
	----- FOUR WEEK AVG -----									
	1300	1165	1115	955	1200	465	695	735	795	
	Avg. of prices reported by USDA Market News for PA Auction Markets April 22-27, 2010									
	CULL MARKET COWS (\$/CWT LIVEWEIGHT)				FED HOLSTEIN STEERS (\$/CWT LIVEWEIGHT)				CURRENT	
	Premium White	Breakers	Boners	Lean	Choice & Prime 1250-1550 lbs				82.35	82.00
	61.00	59.85	56.10	53.35	BULL CALVES: No. 1 & 2, 85-130 lbs				100.85	92.00
	----- WEEK AGO -----				WK AGO				82.00	73.75
	62.60	58.50	56.00	49.00	YR AGO				92.00	98.10
	----- YEAR AGO -----									
	54.75	54.00	50.25	47.75						

brought to you by: