

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JULY 14, 2009 — except where noted



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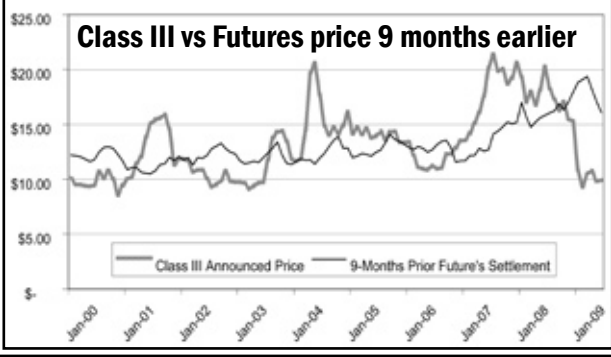
Futures Market: A Predictor or an Opportunity?

The graph below is evidence that futures markets are rarely a predictor of the actual price. This graph plots the closing Class III milk price for a particular month against what the futures price was for that contract month nine months earlier over a 114-month period.

The heavier line is the price level at which Class III milk closed that month. The lighter line is the price level at which someone could have contracted that month's milk... nine months earlier. As time moves closer to the settlement month for the contract, hedgers and speculators have more information to more accurately establish the price for that time period and the gap between the two narrows.

The largest actual price increase occurred in May of 2004 when the contract price increased from \$11.36 at the end of August (nine months earlier) to the closing price of \$20.58—an increase of \$9.22. The largest decline in price was the February 2009 contract, when the price fell from \$19.05 in May of 2008 to close at \$9.31—a drop of \$9.74. The contract moved one way or the other by more than \$1.00, during the nine-month period, in 90 out of the 114 months shown on this graph.

Futures markets can create a false sense of security if you look at a price in the future and assume or hope that it will be accurate. My opinion is that we need to do a better job of recognizing when pricing opportunities occur and take action to preserve that price. We also need to be cautious and realistic about how price movement can affect our business and livelihood. Markets move due to supply and demand, not hope. As always, I welcome your topics and questions.



Prices change daily. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the Center for Dairy Excellence ScoreCard. This market information is an example for educational purposes.

CME DAILY FUTURES & OPTIONS TRADING — JULY 14, 2009 CLOSE

	JUL-09	AUG-09	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10
CLASS III MILK FUTURES (\$/CWT)	9.89	10.29	11.14	12.02	13.02	13.35	13.86	14.02	14.52	14.77	14.92	15.45
	WEEK AGO											
	10.06	10.71	11.38	12.18	13.09	13.49	13.73	13.83	14.40	14.68	14.76	15.25
	HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED											
	20.73 6/08	20.83 6/08	20.98 6/08	20.80 6/08	20.60 6/08	20.64 6/08	20.30 6/08	19.89 6/08	19.75 6/08	19.60 6/08	19.50 6/08	19.20 7/08
	9.88 7/09	10.29 7/09	11.10 7/09	11.96 7/09	12.94 7/09	13.30 7/09	13.23 1/09	13.39 1/09	13.72 1/09	13.98 1/09	14.25 1/09	14.56 1/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63
NY	1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57
VT	1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69
NJ	1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43
DE	2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05
MD	1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01
OH	1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51
WV	1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., July 10, 2009	1.60	1.53	1.43	1.13	0.75	0.34	0.15	0.00	0.00	0.00	0.00	N/A
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	9.75 0.01	10.25 0.20	11.00 0.38	12.00 0.63	13.00 0.78	13.25 0.83	13.75 0.91	14.00 1.02	14.50 1.13	14.75 1.21	14.75 1.22	15.25 1.30

MILC = Milk Income Loss Contract JUNE MILC (not shown) is estimated at \$1.81



IOFC = Income Over Feed Cost

Price averages do not include lower-end common cows and heifers.

Average to high dressing

SEP-09	DEC-09	MAR-10	MAY-10		AUG-09	SEP-09	OCT-09	DEC-09								
CORN (\$/BU) OPTIONS — CALLS				Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS											
2.30	1.017	2.40	1.002		2.50	1.061	2.70	1.000	300	33.45	280	34.95	260	36.60	260	34.45
2.60	0.724	2.70	0.731		2.90	0.727	3.10	0.701	320	17.25	300	21.80	290	19.15	290	19.85
2.90	0.450	3.10	0.436		3.40	0.432	3.60	0.424	330	11.10	330	9.50	320	9.40	320	10.75
3.45	0.104	4.00	0.104		4.60	0.106	5.20	0.102	370	1.55	400	1.50	400	1.50	430	1.70

JUL-09	SEP-09	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	JUL-11	SEP-11	DEC-11
N/A	3.384	3.454	3.586	3.682	3.772	3.846	3.922	4.026	4.152	4.130	4.102
WEEK AGO											
3.354	3.254	3.356	3.490	3.580	3.662	3.714	3.762	3.876	4.002	3.976	3.952

JUL-09	AUG-09	SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10
N/A	334.0	310.5	289.1	283.0	278.8	277.6	276.6	277.0	273.6	266.6	255.6
WEEK AGO											
381.0	352.0	316.2	289.3	281.0	275.0	272.0	267.0	264.0	259.5	255.0	243.0

MILK MARGIN — LATEST PSU VALUES — MAY 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 07/14/09								SPOT CASH
FEED COST (\$/COW @ 65 lbs milk)		IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	JUL	AUG	SEP	OCT	NOV	DEC	JAN	7/14/09	
CURRENT*	4.29	4.42	6.81	NFDM	0.845	0.855	0.865	0.880	0.900	0.930	0.890	
PREV MO	4.05	4.66	7.17	WHEY	0.290	0.302	0.310	0.300	0.310	0.307	N/A	
YRAGO	5.44	7.23	11.13	BUTTER	1.190	1.240	1.295	1.327	1.337	1.347	1.2400	

ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)							CURRENT FEDERAL ORDER VALUES (\$/LB)				
CL I ADV	CLASS II	CLASS III	CLASS IV	ALL-MILK U.S.	ALL-MILK PA		WK ENDING 07/02/09				JUNE 2009
10.26 (JUL)	10.79 (JUN)	9.97 (JUN)	10.22 (JUN)	11.40 (JUN)	13.00 (JUN)		PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS
							CHEESE	1.1466	0.2003	0.9463	PROT 1.7283
							BUTTER	1.2073	0.1715	1.0358	B.FAT 1.2544
							NFDM	0.8461	0.1678	0.6783	N.FAT 0.6715
							DRY WHEY	0.2693	0.1991	0.0702	OTHER 0.0723

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — July 8, 2009)										
COWS: Fresh			Bred			Springing			HEIFERS: Bred	
1100	N/A	1000	960	1135	N/A	735	N/A	785		
FOUR WEEK AVG										
1120	810	1070	1000	1125	715	885	750	765		
Avg. of prices reported by USDA Market News for PA Auction Markets July 9-14, 2009					FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)		CURRENT		WK AGO	YR AGO
CULL MARKET COWS (\$/CWT LIVELWEIGHT)					Choice & Prime 1250-1550 lbs		71.50		72.35	84.50
Premium White					Bull Calves: No. 1 & 2, 85-130 lbs		60.25		52.85	71.00
Breakers		Boners		Lean						
56.10		53.10		50.25						
WEEK AGO										
55.75		53.85		50.50						
YEAR AGO										
71.10		66.00		61.50						

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