

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — AUGUST 25, 2009 — except where noted

Are you a hedger or a speculator?



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A hedger is a producer or consumer of a commodity, who wants to protect a profitable price.

Joseph Dairyman milks 100 cows averaging 70 lbs of milk per day, which equals 210,000 lbs of milk per month—roughly the amount of a Class III CME milk contract. Joe adds the May 2010 Class III price below (\$14.59), to his farm basis which is similar to the May PA basis below (\$2.23) to estimate his May mailbox price (\$16.82).

Using his historical costs of production records—along with the May future prices for corn (\$3.49) and soybean meal (\$288.00)—Joe estimates his May 2010 cost of production at \$12.00 per cwt of milk.

If Joe thinks \$4.82/ cwt is a fair profit, he can use several tools to “hedge” or protect his May 2010 milk margin.

Joe can buy one Class III milk contract (200,000 lbs) to offset his actual production through a broker. The size of the corn (5000 bu) and soybean meal (100 T) contracts make it difficult for him to also hedge feed for one month through a broker.

Many milk cooperatives offer forward pricing tools in

25,000 and 50,000 lb milk contract sizes, so Joe can hedge all or part of his anticipated milk production with the cooperative while he forward prices his corn and soybean meal needs through his feed dealer.

Dairy LGM is very similar to a hedge on milk, corn and soybean meal, which are all combined into one step. This tool makes it possible for Joe to put a floor under the expected gross margin (income over feed cost) without limiting the upside potential from the milk check, on all or part of the expected production. Next enrollment deadline is 9:00 PM 8/29/2009. (The LGM sales period for each month occurs in the hours between the close of the futures markets on the last Friday of the month and 9:00 PM on the last Saturday of the month.)

A speculator accepts market risk hoping to profit from buying and selling futures and/or options contracts. If Joe decides not to protect this or another profitable opportunity, he is “speculating” that his profit will be greater in May of 2010 than \$4.82. History would say that maybe it will, maybe it won't.

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 — AUGUST 25, 2009 CLOSE

	AUG-09	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10
CLASS III MILK FUTURES (\$/CWT)	11.21	13.04	13.48	13.48	13.65	13.93	14.05	14.11	14.59	14.59	14.98	15.28
	----- WEEK AGO -----											
	11.20	12.58	12.91	12.85	13.10	13.26	13.31	13.41	13.59	13.82	14.49	14.92
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	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	19.20 7/08
	10.24 7/09	11.10 7/09	11.96 7/09	12.80 8/09	13.10 8/09	13.23 1/09	13.31 8/09	13.41 8/09	13.58 8/09	13.82 8/09	14.49 8/09	14.87 1/09
	MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)											
	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
	MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Aug. 21, 2009											
	1.64	1.24	0.31	0.11	0.11	0.02	0.00	0.00	0.00	0.00	0.00	0.00
	CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium											
	11.00 0.00	13.00 0.27	13.25 0.34	13.25 0.48	13.50 0.60	13.75 0.69	14.00 0.82	14.00 0.90	14.50 0.95	14.50 1.02	14.75 1.03	15.25 1.21

MILC = Milk Income Loss Contract JULY MILC (not shown) is estimated at \$1.54



IOFC = Income Over Feed Cost

* NEW Price Announced

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

Average to high dressing

	DEC-09	MAR-10	MAY-10	JUL-10		OCT-09	DEC-09	JAN-10	MAR-10
CORN (\$/BU) OPTIONS — CALLS					Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS			
	2.30 1.060	2.50 1.022	2.60 1.043	2.70 1.055		280 31.65	270 34.95	270 35.90	270 36.10
	2.70 0.687	2.90 0.693	3.00 0.733	3.20 0.697		290 24.05	290 22.70	290 24.40	300 21.70
	3.10 0.305	3.40 0.393	3.60 0.400	3.80 0.416		310 12.45	320 11.05	320 12.30	340 10.85
	3.80 0.110	4.60 0.100	5.10 0.100	5.50 0.100		360 1.75	400 1.60	410 1.50	460 1.70

	SEP-09	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11
CORN FUTURES (\$/BU)	3.214	3.266	3.404	3.496	3.582	3.660	3.746	3.872	3.942	4.002	3.970	3.936
	----- WEEK AGO -----											
	3.144	3.224	3.362	3.456	3.544	3.630	3.724	3.846	3.916	3.966	3.940	3.910

	SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11
SOYMEAL FUTURES (\$/TON)	358.0	308.5	298.5	295.7	292.7	288.0	288.7	287.2	281.7	269.7	269.2	268.2
	----- WEEK AGO -----											
	313.7	287.6	284.2	283.7	283.2	281.7	282.7	281.7	276.7	267.7	268.7	267.7

	MILK MARGIN — LATEST PSU VALUES — JULY 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 08/25/09								SPOT CASH
	FEED COST (\$/COW @ 65 lbs milk)		IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	AUG	SEP	OCT	NOV	DEC	JAN	FEB	8/25/09	
CURRENT*	4.08		4.37	6.72	NFDM 0.880	0.920	0.976	0.976	0.990	1.040	1.045	0.9950	
PREV MO	4.33		4.12	6.33	WHEY 0.295	0.300	0.302	0.302	0.305	0.305	0.290	N/A	
YR AGO	5.73		8.19	12.59	BUTTER 1.203	1.180	1.210	1.240	1.257	1.295	1.310	1.1650	
					CME SPOT CHEESE: 40 LB BLOCKS 1.3900 / BARRELS 1.3800								

	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 08/21/09			JULY 2009		
	10.93 (SEP)	10.87 (JUL)	9.97 (JUL)	10.15 (JUL)	11.30 (JUL)	13.00 (JUL)	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS	
							CHEESE	1.2311	0.2003	1.0308	PROT 1.6970	
	10.04	10.79	9.97	10.22	11.30	13.00	BUTTER	1.2158	0.1715	1.0443	B.FAT 1.2438	
							NFDM	0.8695	0.1678	0.7017	N.FAT 0.6677	
	17.65	16.81	18.24	16.60	19.30	21.40	DRY WHEY	0.2938	0.1991	0.0947	OTHER 0.0949	

	CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - Aug. 19, 2009)								
	COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)
	1235	885	N/A	1025	1285	685	925	N/A	N/A
	----- FOUR WEEK AVG -----								
	1175	885	860	1055	1240	690	845	740	735

	CULL MARKET COWS (\$/CWT LIVELWEIGHT)				FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)			BULL CALVES: No. 1 & 2, 85-130 lbs			
	Premium White	Breakers	Boners	Lean	Choice & Prime 1250-1550 lbs	CURRENT	WK AGO	YR AGO			
	51.75	51.00	48.10	44.10		72.75	71.50	85.85			
	----- WEEK AGO -----					72.35	72.50	76.00			
	52.25	51.75	48.50	45.00							
	----- YEAR AGO -----										
	69.50	66.00	62.25	58.00							

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