

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — SEPTEMBER 1, 2009 — except where noted

Corn & Soymeal Options — Calls?

An option contract gives the owner the right, but not the obligation, to buy or sell a futures contract at a specified price within a specified time. The specified price is called the strike price. A *call* is the right to buy a futures contract.

For a cost, a *call* guarantees a minimum price to buy a commodities contract in the future. Options are based on the "underlying" futures contracts, so an option contract for corn is 5000 bushels and soybean meal is 100 ton.

The underlying December 2009 corn contract below closed at \$3.19/ bushel. Corn options trade in \$0.10 intervals (to save room, we show various intervals below). The underlying December 2009 soybean meal contract closed at \$289/Ton. Soy meal options trade in \$10.00 intervals.

Strike prices for each month are in bold print under the headings "Corn (\$/bu) Options — Calls" and "Soymeal (\$/Ton) Options — Calls."

The "at the money strike price" (the Dec. 2009 op-

tion with a strike price closest to the underlying futures price) is \$3.20 for corn and \$290 for soybean meal.

Option prices are set by willing buyers and sellers at auction on the CME. The cost to buy the option contract (premium) is listed in lighter print to the right of the strike price for each month. A December 2009 corn *call* at the \$3.20 strike price sold for \$0.204/bushel.

A December 2009 soybean meal *call* at the \$290 strike price sold for \$21.30/ton. The more time that is left until the option expires, the more it will cost.

Dairy LGM, sold by approved crop insurance agents, is essentially a *put* option on milk and a *call* option on corn and soybean meal bundled together.

The LGM policy for one month will cost about the same as the milk *put*, corn *call* and soybean meal *call* for that month. It can cover from one to ten months of production. The LGM policy can be tailored to cover all or part of the milk production and feed use on farms from 12 to 1200 cows. As always, your questions and comments are welcomed.



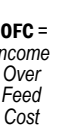
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Prices change daily. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the Center for Dairy Excellence Scorecard. This market information is an example for educational purposes.

CME DAILY FUTURES & OPTIONS TRADING — SEPTEMBER 1, 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)	11.20	12.25	12.32	12.83	13.00	13.35	13.45	13.46	13.98	14.11	14.53	14.75
	----- WEEK AGO -----											
	11.21	13.04	13.48	13.48	13.65	13.93	14.05	14.11	14.59	14.59	14.98	15.28
	----- 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	13.00 9/09	13.23 1/09	13.31 8/09	13.41 8/09	13.58 8/09	13.82 8/09	14.49 8/09	14.75 9/09
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. 28, 2009	1.64	1.24	0.59	0.48	0.32	0.26	0.09	0.00	0.00	0.00	0.00	0.00
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	11.00 0.00	12.25 0.16	12.25 0.33	12.75 0.48	13.00 0.60	13.25 0.64	13.25 0.66	13.25 0.71	13.75 0.78	14.00 0.91	14.50 1.03	14.25 0.86

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



* 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	Example Daily Strike Price / Premium	OCT-09	DEC-09	JAN-10	MAR-10							
CORN (\$/BU) OPTIONS — CALLS					SOYMEAL (\$/TON) OPTIONS — CALLS										
2.30	1.001	2.40	1.044	2.50	1.052	2.60	1.057	280	31.05	270	33.80	270	33.65	270	34.95
2.60	0.713	2.80	0.692	2.90	0.731	3.10	0.693	290	23.05	290	21.30	290	22.05	300	20.55
3.20	0.204	3.20	0.424	3.40	0.424	3.70	0.390	310	11.10	320	9.70	320	11.10	340	9.90
3.70	0.090	4.30	0.100	4.70	0.103	5.20	0.100	350	1.80	390	1.50	400	1.40	450	1.75

SEP-09	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11
3.122	3.192	3.324	3.414	3.500	3.582	3.674	3.796	3.866	3.930	3.894	3.856
----- WEEK AGO -----											
3.214	3.266	3.404	3.496	3.582	3.660	3.746	3.872	3.942	4.002	3.970	3.936

SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11
351.7	296.7	288.7	286.9	285.3	282.5	283.5	282.5	277.0	265.5	265.5	264.5
----- WEEK AGO -----											
358.0	308.5	298.5	295.7	292.7	288.0	288.7	287.2	281.7	269.7	269.2	268.2

MILK MARGIN — LATEST PSU VALUES — JULY 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 09/01/09								SPOT CASH
FEED COST (\$/COW @ 65 lbs milk)		IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	AUG	SEP	OCT	NOV	DEC	JAN	FEB	9/01/09	
CURRENT*	4.08	4.37	6.72	NFDM	0.875	0.920	0.976	0.976	0.990	1.039	1.020	0.9950
PREV MO	4.25	4.13	6.36	WHEY	0.295	0.300	0.290	0.300	0.295	0.295	0.285	N/A
YRAGO	5.73	8.19	12.59	BUTTER	1.205	1.180	1.230	1.240	1.260	1.295	1.310	1.1700
				CME SPOT CHEESE: 40 LB BLOCKS 1.3475 / BARRELS 1.3150								

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	PRODUCT	VALUE	MAKE ALLOW	NET	JULY 2009 COMPONENTS
10.93 (SEP)	10.87 (JUL)	9.97 (JUL)	10.15 (JUL)	11.80 (AUG)*	13.20 (AUG)*		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
17.65	16.81	18.24	16.60	18.40	20.50		NFDM	0.8695	0.1678	0.7017	N.FAT 0.6677
							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. 26, 2009)									
COWS: Fresh			Bred			Springing			HEIFERS: Bred
1075	N/A	1035	1015	1365	615	815	950	725	
----- FOUR WEEK AVG -----									
1170	885	945	1055	1275	695	865	950	775	

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	Choice & Prime 1250-1550 lbs	YR AGO	
N/A	52.00	49.00	45.00	72.00	72.75	84.75		75.00	72.35	78.50
				BULL CALVES: No. 1 & 2, 85-130 lbs						

CULL MARKET COWS (\$/CWT LIVELWEIGHT)			
Premium White	Breakers	Boners	Lean
N/A	52.00	49.00	45.00
----- WEEK AGO -----			
51.75	51.00	48.10	44.10
----- YEAR AGO -----			
69.75	66.00	62.50	58.50

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