

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — **OCTOBER 13, 2009** — except where noted



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What would a Gross margin > \$12.00 be worth?

The graph shows the anticipated *expected gross margins* available for purchase with the October 2009 Dairy LGM policy. The monthly *expected gross margins* range from \$12.20 to \$12.84 while the *actual gross margin* for September 2009 was \$9.85. Class III milk, corn, and soybean meal futures prices from the Chicago Mercantile Exchange (CME), along with default feed quantities, determine the value of these gross margins. Default feed values are 1/2 bushel of corn and 4 pounds of soybean meal used for every 100 pounds of milk produced.

\$14.83
- 1.67
= **0.56**
\$12.40

I will illustrate using one hundredweight of milk and the futures prices for March contracts on Friday, October 9, 2009. One hundred pounds of Class III milk (\$14.83)—subtracting the cost of 1/2 bu. of corn (\$3.74*.5) and 4 lb. of soybean meal (.002* \$282.40)—yields an expected gross margin of \$12.40.

Joe Dairyman can contact his crop insurance agent anytime to discuss policy details and do initial paperwork. After Joe decides to protect this margin for a portion of his monthly production, he will make an appointment with his agent on Friday evening or Saturday (October 30 or 31) to confirm his decision, sign the policy applications and present the payment to his agent.

The 2009 Pennsylvania Dairy Profitability Forum will feature U.S. Department of Agriculture Deputy Undersecretary for Farm and Foreign Agricultural Services Michael Scuse. The forum also

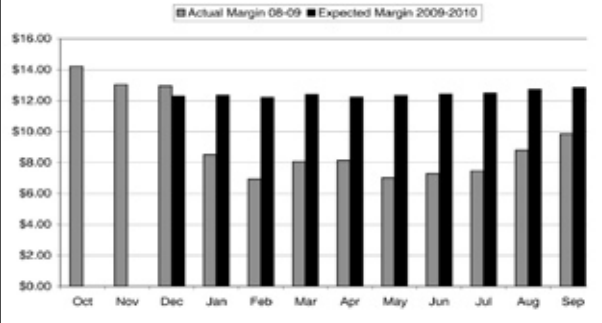
Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the CDE Scorecard.

features sessions on profitability and risk management by experts Dr. David Galton, Cornell Univ. and Phil Plourd, Blimling & Assoc.

They will speak Tues., Oct. 27, in Harrisburg at the PA Farm Show Complex. A second forum will take place Wed., Oct. 28, at the Clarks Mills United Methodist Church, located on Route 358, two miles west of Interstate 79, Exit 130. Both events are from 9 a.m. to 4 p.m. To receive a registration brochure, call the Center for Dairy Excellence at 717-346-0849.

As always, I encourage your questions and comments.

Actual Margin (2008-09) vs. Expected Margin (2009-10)



CME DAILY FUTURES & OPTIONS TRADING — OCTOBER 13, 2009 CLOSE

	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10
CLASS III MILK FUTURES (\$/CWT)	12.75	14.38	14.60	14.62	14.55	14.85	14.78	14.90	14.99	15.13	15.37	15.45
	WEEK AGO											
	12.84	14.21	14.65	14.58	14.53	14.67	14.53	14.75	14.75	14.90	15.18	15.35
	HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED											
	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	15.45 9/09	15.48 10/09
	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	15.00 9/09	15.35 10/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38	2.37
NY	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44	1.39
VT	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44	1.53
NJ	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18	1.17
DE	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80	1.79
MD	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76	1.75
OH	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51	1.63	1.26	1.33
WV	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20	1.19
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Oct. 9, 2009	0.60	0.42	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 0.05	14.25 0.26	14.50 0.49	14.50 0.62	14.50 0.73	14.75 0.80	14.75 0.89	14.75 0.91	14.75 0.93	15.00 1.05	15.25 1.14	15.25 1.16

MILC = Milk Income Loss Contract SEPT MILC (not shown) is estimated at \$1.24

DEC-09	MAR-10	MAY-10	JUL-10	Example Daily Strike Price / Premium	DEC-09	JAN-10	MAR-10	MAY-10							
CORN (\$/BU) OPTIONS — CALLS					SOYMEAL (\$/TON) OPTIONS — CALLS										
2.80	1.022	2.90	1.060	3.00	1.054	3.10	1.052	270	37.45	270	37.05	270	37.55	270	37.20
3.30	0.555	3.40	0.644	3.50	0.660	3.60	0.700	300	16.55	300	18.00	300	20.60	300	22.00
3.80	0.214	3.90	0.353	4.00	0.394	4.10	0.446	310	11.75	320	10.40	330	10.85	340	10.50
4.10	0.111	4.90	0.101	5.10	0.116	5.60	0.120	360	1.95	380	1.55	410	1.50	440	1.70

DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	JUL-12
CORN FUTURES (\$/BU)											
3.816	3.932	4.012	4.082	4.136	4.194	4.284	4.344	4.404	4.304	4.234	4.424
WEEK AGO											
3.582	3.704	3.786	3.862	3.940	4.034	4.144	4.220	4.286	4.170	4.104	4.304
SOYMEAL FUTURES (\$/TON)											
326.3	306.3	302.8	299.5	295.3	293.9	293.3	291.5	287.0	286.5	287.0	289.0
WEEK AGO											
285.5	277.5	273.6	270.3	267.5	268.0	268.9	268.4	264.5	265.0	265.5	267.5

MILK MARGIN — LATEST PSU VALUES — AUG 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 10/13/09										SPOT CASH		
FEED COST	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (\$/CWT milk)		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
(Now based on \$/CWT milk)				NFD	1.056	1.060	1.106	1.170	1.170	1.170	1.170	1.170	1.170	1.170	1.170	1.2900
CURRENT	6.09	4.62	7.11	WHEY	0.320	0.360	0.370	0.375	0.370	0.365	0.375	N/A				
PREV MO	6.18	4.43	6.82	BUTTER	1.235	1.277	1.335	1.370	1.370	1.397	1.407	1.2425				
YRAGO	8.15	8.02	12.33	CME SPOT CHEESE: 40 LB BLOCKS	1.5075	/ BARRELS 1.4575										

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 10/06/09	PRODUCT	VALUE	MAKE ALLOW	NET	SEP 2009
12.35 (OCT)	11.01 (SEP)	12.11 (SEP)	11.15 (SEP)	12.70 (SEP)	14.10 (SEP)	CHEESE	1.3522	0.2003	1.1519	1.1519	PROT 2.4243
10.93	10.86	11.20	10.38	11.80	13.20	BUTTER	1.1811	0.1715	1.0096	1.0096	B.FAT 1.2226
18.40	17.58	16.28	15.45	18.20	20.40	NFDM	0.9664	0.1678	0.7986	0.7986	N.FAT 0.7906
						DRY WHEY	0.2979	0.1991	0.0988	0.0988	OTHER 0.1018

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — (Oct. 7, 2009)									
COWS: Fresh			Bred			Springing			HEIFERS: Bred
1435	1225	1375	1215	1350	675	715	745	605	BULLS (600-1200 lb)
FOUR WEEK AVG									
1360	1135	1330	1145	1315	645	765	840	615	
Avg. of prices reported by USDA Market News for PA Auction Markets Oct. 8-13, 2009									
CULL MARKET COWS (\$/CWT LIVELWEIGHT)									
Premium White	Breakers	Boners	Lean						
47.10	45.00	43.50	40.50						
WEEK AGO									
48.00	46.25	44.00	41.50						
YEAR AGO									
61.00	57.25	53.00	49.00						



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