




## An Overview of General Risk Management Tools Available to Dairy Farmers

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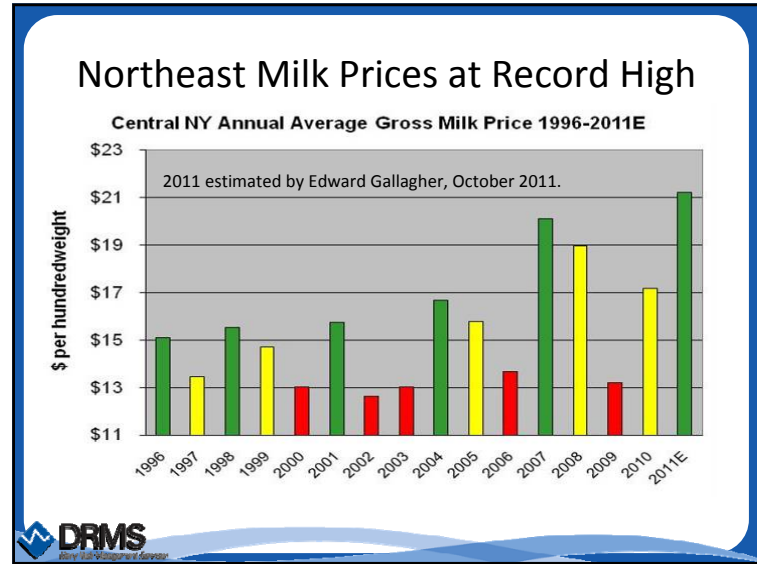
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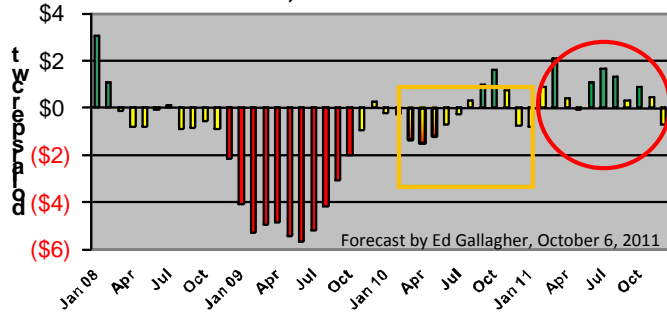
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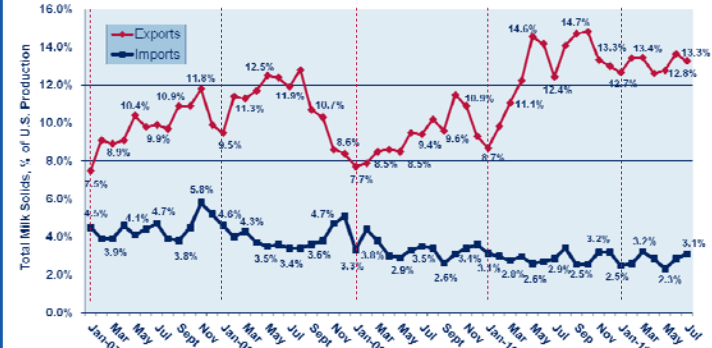
## Gallagher's Profitability Barometer

US Dairy Farm Average Net Margins  
Estimated, Jan 08 - Dec 11

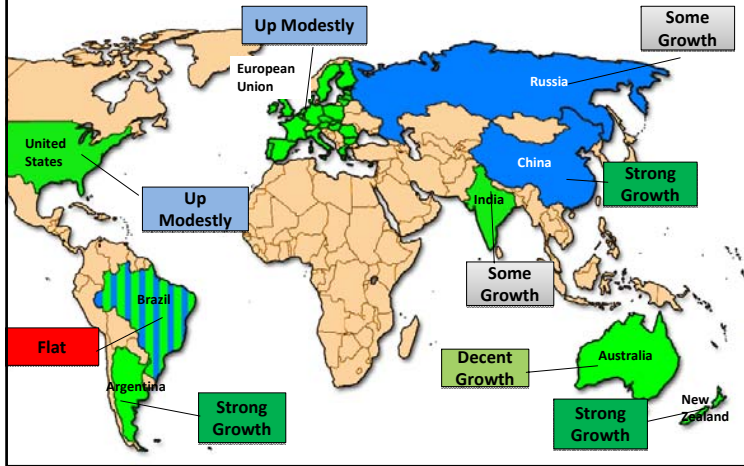


## Trade Surplus Remains Large

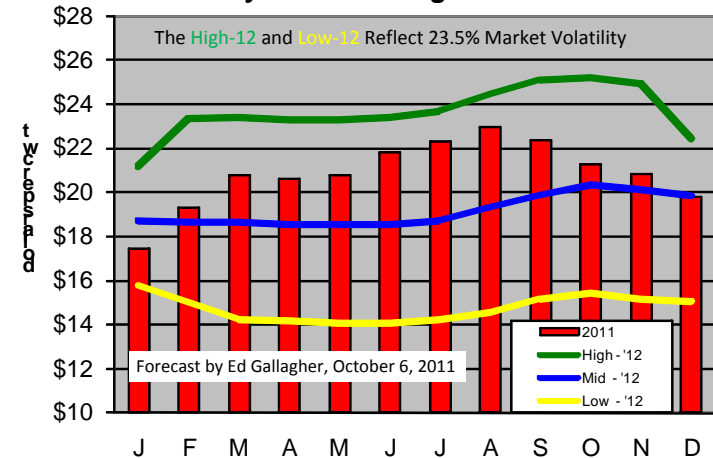
MONTHLY U.S. DAIRY TRADE BALANCE, 2007-2011 YTD



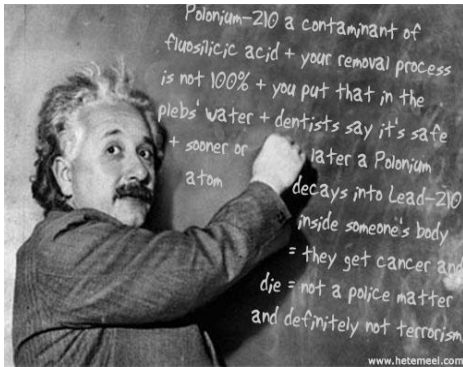
## 2012 Milk Production Growth



## CNY, NPA, NVT Gross Milk Price Estimates, 2011 and by Three Pricing Levels for 2012

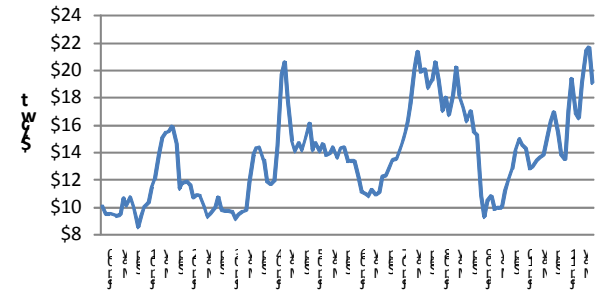


## So What Does All of This Mean??



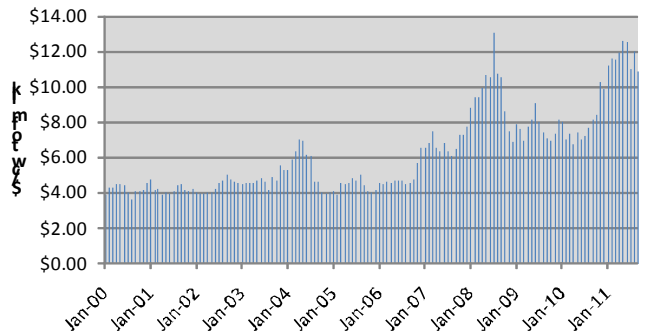
## Milk Price Volatility is Significant

**FMMO Class III Prices, Jan '00-Sep '11**



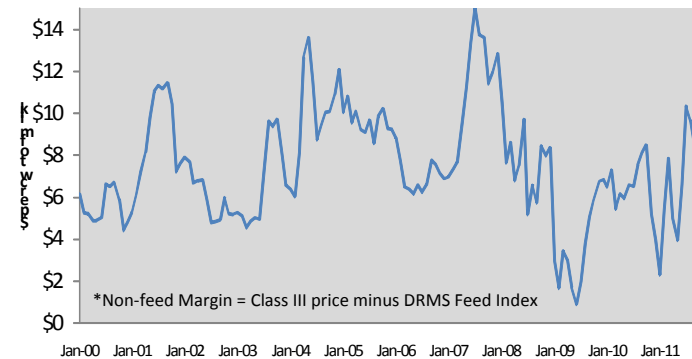
## On the Feed Side...

**DRMS Feed Index, Jan '00-Sep '11**



## Milk-Feed Margins Very Volatile

**DRMS Non-Feed Margin\* Jan '00 - Sep '11**



## Feed Sources Impact Milk Hedging Strategies

Growing Feed

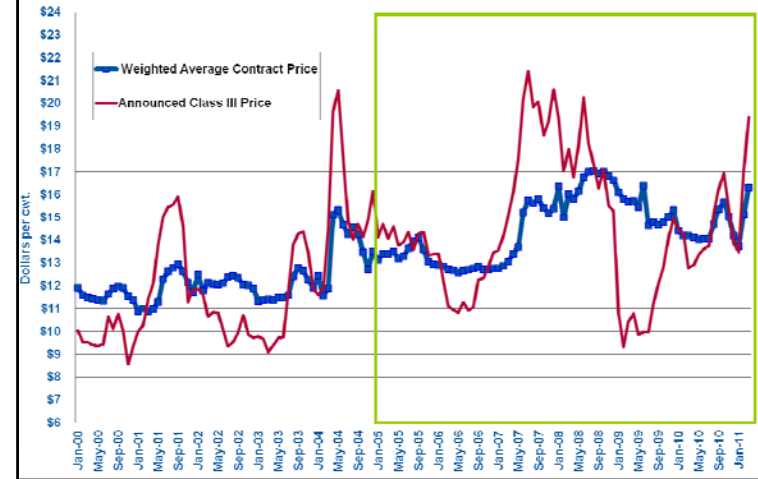


VS

Buying Feed

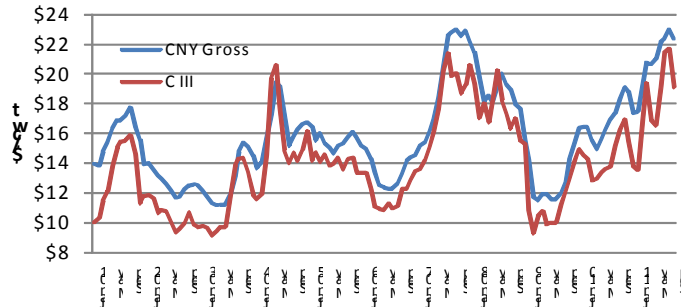


Weighted Average Contract Prices vs. Announced Class III Prices  
January 2005 through March 2011 - Contract Ranges Reflected  
Weighted Average Value - \$14.53 vs. Class III Average - \$14.61



## Class III Highly Correlated to Gross Farm Milk Prices

CNY Gross Milk Price vs Class III Price



## DRMS Forward Contracting Program Line-Up

Price Hedge Options	Forward Contract Type	Forward Contract Adjustment Options
Class III	Fixed	Upside Rider
Class IV	Minimum	Capped Upside Rider
Cheese-based	Min/Max	Feed Rider**
Target Blend	Maximum	Downside Rider***
Corn*		Capped Downside Rider***
Soybean Meal*		
M-F Margin		

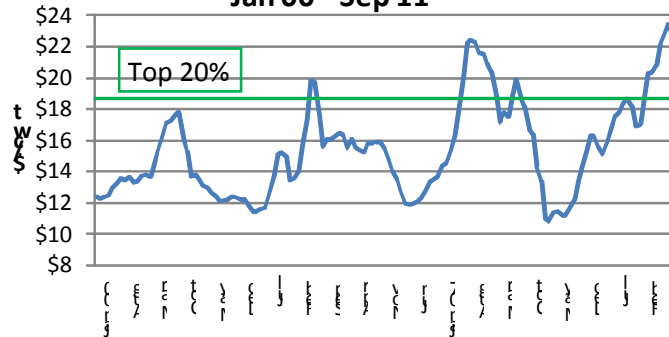
\*Feed rider combined with a milk price forward contract

\*\*Added to a milk price forward contract

\*\*\*For contracts with feed riders

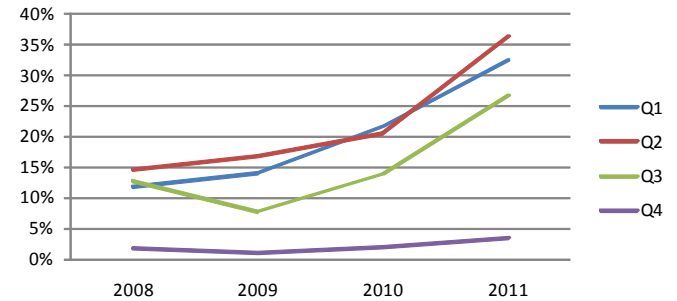
## Target Blend Price Program

**FMMO 1 Blend Prices, Boston Zone  
Jan 00 - Sep 11**



## Increasing Usage

**Percentage of DFA Members With Forward Contracts, by Production Quartile, 2008-2011**



## The World as We Have Known it Has Changed



## Make a Plan



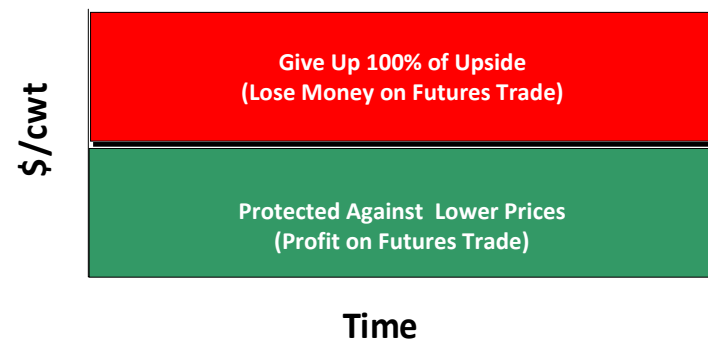
## There Are Many Choices



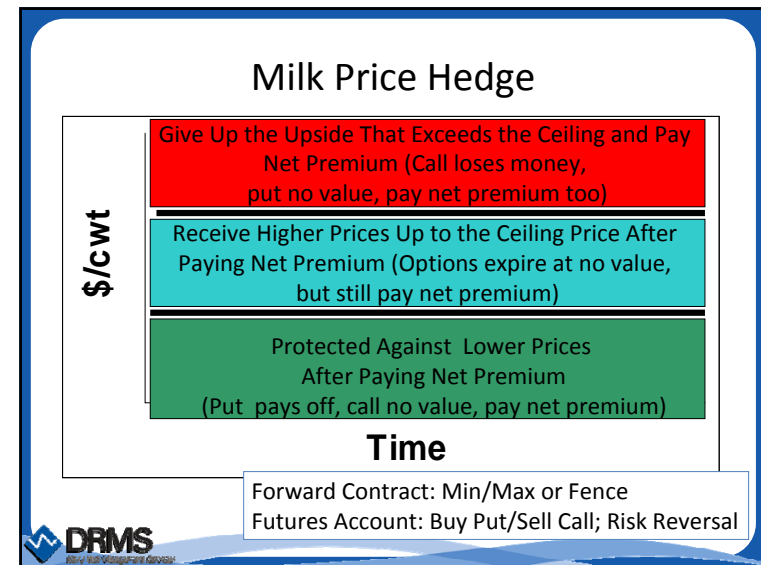
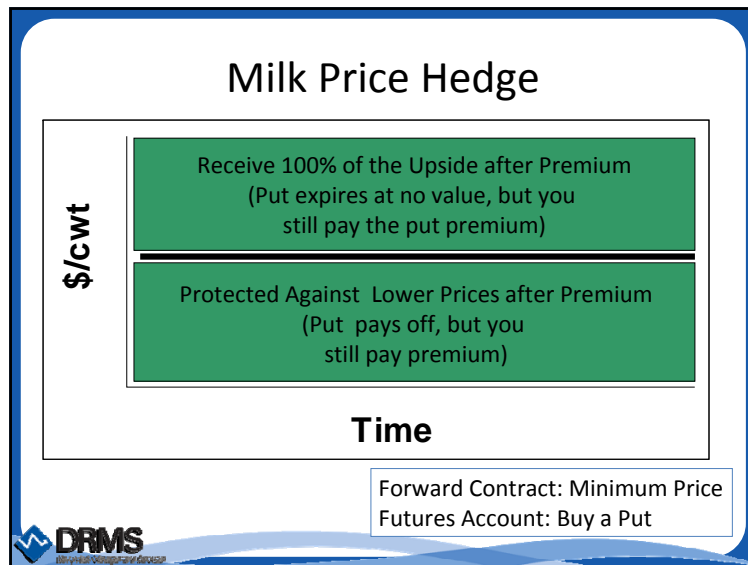
Very basic description of common milk price and feed price forward contracts

	<u>Forward Contract</u>	<u>Futures Position</u>
Volume	1 million lbs/month	1 million lbs/month
Term	Calendar Year	Monthly
No. Contracts	One	Twelve or more
Price	One price for entire period	Twelve or more
Contract Facilitator	Cooperative Employee	For Profit Broker
Futures Positions	Zero	60
Brokers Fees	Zero	\$2,400
Initial Margin	Zero	\$108,000
Margin Calls	None	Potentially
Hedge Line	None	\$240,000
End of Contract Fees	Yes	No

## Milk Price Hedge



Forward Contract: Fixed Price  
Futures Account: Sell Futures



### Options to manage feed risk

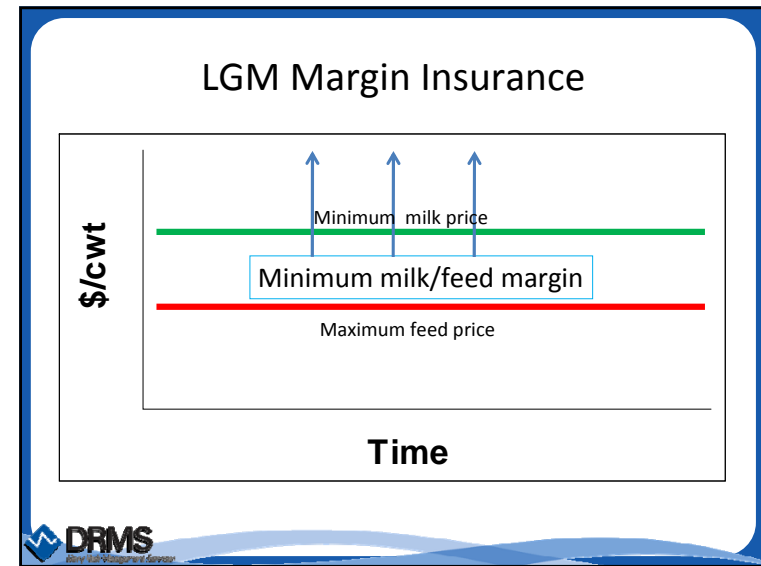
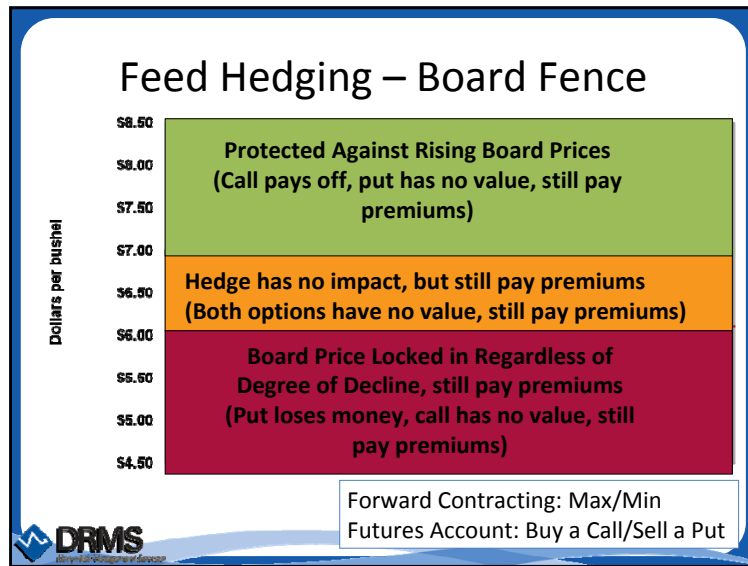
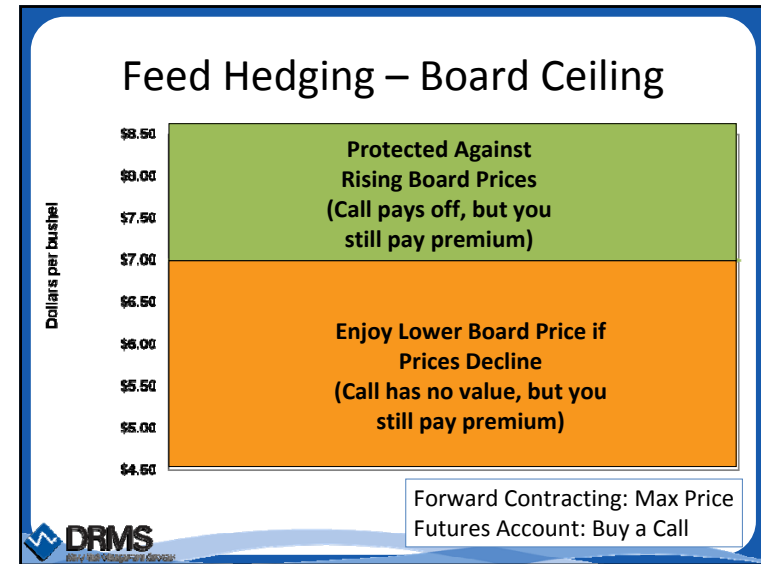
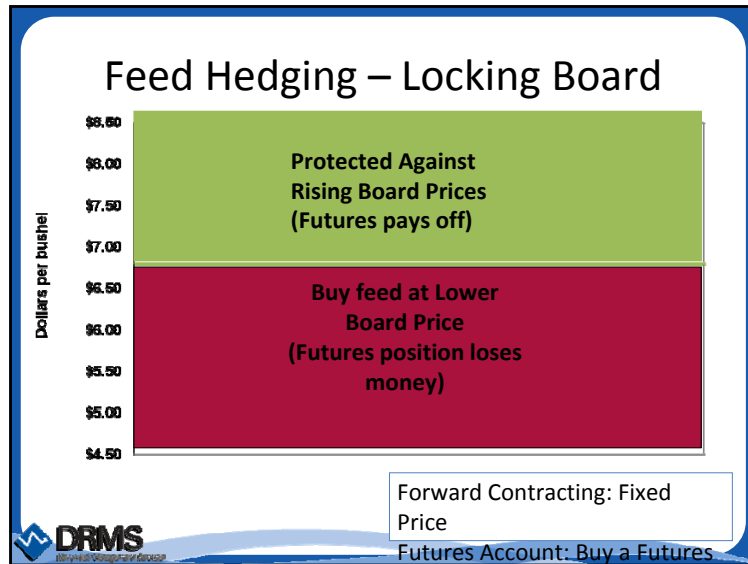
- **GROWN**
  - Crop Insurance
  - Pre-purchase
  - Inputs
- **PURCHASED**
  - Contract with suppliers
  - Hedge




**DRMS**  
Dairy Risk Management Services

### EXAMPLES NO FEED COVERAGE

**DRMS**  
Dairy Risk Management Services



Questions/Discussion

Thank You!!