

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — NOVEMBER 10, 2009 — except where noted



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Milk Price Gambling?

At lunch this week a friend jokingly told me "I keep hearing that risk management will be the salvation of the dairy industry and I'm not sure that I want to be gambling on my milk price." I'm certain this is a common concern of producers.

The goal of price risk management should be to cover your cost of production and protect profits, not to gamble that prices will improve.

The graph below shows the March 2010 Class III milk contract price has increased from \$13.46 to \$15.15 since the end of August. In the past year, March 2010 Class III milk has traded between \$13.41 and \$15.75. Will the milk price graph continue to increase?

What if the March 2010 graph dips again? Joe Dairyman could consider a Dairy LGM policy, a minimum price contract with his milk cooperative, or a Class III 'put' option purchased through his broker. These tools can set a price floor to protect a profitable milk price while allowing Joe the opportunity to receive the higher price in his milk check if prices do increase.

Is Joe gambling by using pricing tools to protect a profitable price, or is he gambling by simply hoping the milk price will be higher next spring?

Because of the Thanksgiving and Christmas holidays, LGM will be offered for sale on Nov. 20 & 21, 2009 and Dec. 18 & 19, 2009.

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.

Crop insurance notes: The harvest price has been set for CRC corn at \$3.72 and soybeans at \$9.66. If you think you have a claim, call your agent immediately. Claims may be denied if notice of loss is turned in after December 10, 2009. November 16, 2009 is the deadline to file acreage reports for fall seeded barley, wheat and APH forage production policies. GRP forage production insurance enrollment/policy change deadline for grass and legumes is November 30, 2009 for the 2010 crop year. As always, your questions and comments are welcomed.

Announced Class III Futures Prices - Contract Date March 2010



CME DAILY FUTURES & OPTIONS TRADING — NOVEMBER 10, 2009 CLOSE

	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10
CLASS III MILK FUTURES (\$/CWT)	14.08	14.82	14.93	15.07	15.19	15.44	15.45	15.58	15.65	15.66	15.70	15.66
	----- WEEK AGO -----											
	13.86	14.72	14.95	15.07	15.17	15.31	15.35	15.31	15.42	15.56	15.69	15.60
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	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	15.66 11/09	15.78 10/09	15.66 11/09
	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	15.44 11/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38	2.37	2.87
NY	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44	1.39	1.79
VT	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44	1.53	1.99
NJ	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18	1.17	1.67
DE	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80	1.79	2.29
MD	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76	1.75	2.25
OH	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51	1.63	1.26	1.33	1.91
WV	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20	1.19	1.69
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Nov. 6, 2009	0.37	0.00	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	14.00 0.05	14.75 0.35	14.75 0.53	15.00 0.69	15.00 0.73	15.25 0.76	15.25 0.84	15.50 0.97	15.50 1.00	15.50 1.06	15.50 1.10	15.50 1.17

MILC = Milk Income Loss Contract OCT MILC (not shown) is estimated at \$0.60

	DEC-09	MAR-10	MAY-10	JUL-10		DEC-09	JAN-10	MAR-10	MAY-10
CORN (\$/BU) OPTIONS — CALLS					Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS			
2.90	1.045	3.10 1.014	3.20 1.042	3.30 1.067	250	38.30	250 33.30	250 34.55	250 37.25
3.25	0.696	3.50 0.677	3.70 0.655	3.80 0.717	270	19.20	260 24.80	260 27.50	280 19.60
3.55	0.406	4.00 0.366	4.20 0.390	4.30 0.471	290	5.40	280 11.10	280 16.20	310 10.25
3.95	0.113	4.90 0.110	5.30 0.120	6.00 0.116	310	1.15	330 1.45	370 1.70	410 1.90

	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)	3.944	4.090	4.190	4.274	4.350	4.430	4.534	4.594	4.664	4.580	4.530	4.730
	----- WEEK AGO -----											
	3.900	4.034	4.130	4.214	4.290	4.376	4.482	4.542	4.606	4.522	4.466	4.666

	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11
SOYMEAL FUTURES (\$/TON)	288.2	281.0	279.2	279.0	280.3	280.5	279.7	278.2	279.2	279.7	281.7	279.7
	----- WEEK AGO -----											
	306.4	299.5	297.2	293.8	293.8	293.0	292.0	288.0	288.0	288.5	290.5	288.5

	MILK MARGIN — LATEST PSU VALUES — SEPT 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 11/10/09								SPOT CASH
	FEED COST	IOFC (\$/COW @ 65 lbs milk)	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (\$/CWT milk)	NOV	DEC	JAN	FEB	MAR	APR	MAY	11/10/09	
CURRENT	6.17	5.17	5.17	7.93	NFDM	1.150	1.235	1.250	1.245	1.235	1.170	1.170	1.3700
PREV MO	6.17	4.63	4.63	7.13	WHEY	0.345	0.360	0.390	0.385	0.390	0.390	0.372	N/A
YRAGO	8.15	8.03	8.03	12.33	BUTTER	1.385	1.510	1.573	1.600	1.610	1.622	1.602	1.5250
					CME SPOT CHEESE:	40 LB BLOCKS 1.5700 / BARRELS 1.5050							

	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 10/30/09			OCT. 2009		
NEW Price Announced	12.86 (NOV)	11.93 (OCT)	12.82 (OCT)	11.86 (OCT)	13.80 (OCT)	15.40 (OCT)	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS	
							CHEESE	1.4110	0.2003	1.2107	PROT 2.5584	
	12.35	11.01	12.11	11.15	12.90	14.20	BUTTER	1.2245	0.1715	1.0530	B.FAT 1.2752	
							NFDM	1.0270	0.1678	0.8592	N.FAT 0.8506	
	17.33	16.60	17.06	13.62	17.80	19.30	DRY WHEY	0.3183	0.1991	0.1192	OTHER 0.1228	

	CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - (Nov. 4, 2009))								
	COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)
	1250	985	1175	1115	1200	465	675	750	675
	----- FOUR WEEK AVG -----								
	1345	1125	1225	1115	1265	535	675	770	685

	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				
	45.00	42.50	41.00	38.50		71.75	71.50	79.25				
	----- WEEK AGO -----											
	46.10	44.10	43.00	39.85		65.00	54.50	66.00				
	----- YEAR AGO -----											
	55.50	52.75	50.00	45.25								

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