

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — **DECEMBER 15, 2009** — except where noted



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Will dairy price reform eliminate volatility?

From coast to coast dairymen are asking good questions about the milk price structure in the United States. As a result there are various proposals on how to best manage the nationwide milk supply or change the pricing structure for dairy. The Pennsylvania Department of Agriculture and the Center for Dairy Excellence, with input from the Pennsylvania Dairy Task Force, have developed the following recommendations for dairy policy change:

- Mandate greater market transparency and price discovery
- Strengthen the safety net for producers
- Overhaul the federal order system
- Develop new markets and encourage industry investment
- Strengthen oversight of trade agreements
- Explore Pennsylvania Milk Marketing Board authority

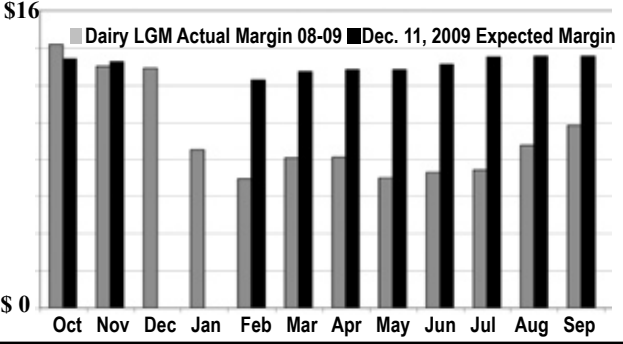
Will these or other reforms end milk price volatility? There are some dairy producers who hope changes in policy will replace the need to understand milk pricing and the use of risk management tools. Outside influences will continue to affect the dairy industry just like they affect all commodities and the rest of the economy. In the past ten years corn has traded between \$1.79 and \$7.32 per bushel, hogs between \$25.66 and \$88.70 per cwt, and heating oil from \$.47 to \$4.08 per gallon (NYMEX cash price). In the past ten years, the Pennsylvania all milk price ranged from \$12.50 in spring of 2003 to \$23.90 in November 2007. Currency

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.

exchange rates, drought, international politics and other factors along with supply and demand will always influence milk and all commodity pricing.

Dairy policy reform can make milk pricing easier to understand, encourage production of different products, and possibly reduce but not eliminate volatility. Market factors will continue to create swings in farm milk prices.

The graph shows the estimated gross margin available for purchase in the Dec. 18-19, 2009 Dairy LGM sales period.



CME DAILY FUTURES & OPTIONS TRADING — DECEMBER 15, 2009 CLOSE

	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10
CLASS III MILK FUTURES (\$/CWT)	14.86	14.89	14.84	15.27	15.36	15.47	15.82	16.17	16.21	16.24	16.06	15.97
	----- WEEK AGO -----											
	14.71	14.50	14.54	15.01	15.29	15.42	15.70	16.15	16.20	16.24	16.05	15.95
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	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	16.27 12/09	16.30 12/09	16.12 12/09	16.03 12/09
	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	15.95 12/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38	2.37	2.87	3.19
NY	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44	1.39	1.79	2.17
VT	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44	1.53	1.99	2.27
NJ	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18	1.17	1.67	1.99
DE	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80	1.79	2.29	2.61
MD	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76	1.75	2.25	2.57
OH	2.23	2.32	2.15	2.34	0.98	1.25	1.51	1.63	1.26	1.33	1.91	2.31
WV	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20	1.19	1.69	2.01
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Dec. 11, 2009	0.00	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	14.75 0.02	14.75 0.27	14.75 0.49	15.25 0.63	15.25 0.69	15.25 0.73	15.75 0.89	16.00 0.95	16.00 1.01	16.00 1.05	16.00 1.20	15.75 1.16

MILC = Milk Income Loss Contract NOV MILC (not shown) is estimated at \$0.37



	MAR-10	MAY-10	JUL-10	SEP-10		JAN-10	MAR-10	MAY-10	JUL-10
CORN (\$/BU) OPTIONS — CALLS					Example Daily Strike Price / Premium				
3.00	1.077	3.20 1.010	3.30 1.044	3.40 1.053	280	36.90	280 36.10	280 37.90	290 36.20
3.50	0.613	3.70 0.601	3.80 0.676	4.30 0.521	300	17.25	310 16.80	310 20.75	310 26.00
4.10	0.220	4.20 0.315	4.30 0.421	5.20 0.254	310	8.30	340 6.95	360 7.50	380 9.00
4.50	0.094	5.00 0.105	5.80 0.101	6.30 0.101	320	2.25	400 1.25	440 1.60	500 1.70

	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12
CORN FUTURES (\$/BU)	N/A	4.074	4.182	4.272	4.322	4.380	4.476	4.540	4.594	4.536	4.496	4.576
	----- WEEK AGO -----											
	3.694	3.850	3.960	4.056	4.130	4.206	4.314	4.376	4.432	4.364	4.334	N/A
SOYMEAL FUTURES (\$/TON)	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11
	N/A	316.8	312.4	309.3	309.8	308.2	303.2	294.8	293.0	293.0	295.0	293.0
	----- WEEK AGO -----											
	316.6	308.1	305.0	304.4	306.0	305.5	302.2	296.2	296.0	297.0	299.0	297.0

* = NEW	MILK MARGIN — LATEST PSU VALUES — OCT 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 12/15/09								SPOT CASH					
IOFC = Income Over Feed Cost	FEED COST	IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (\$/CWT milk)		DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
CURRENT	5.85	6.21	9.55		NFDM	1.285	1.360	1.345	1.340	1.300	1.300	1.300	1.300	1.300	1.300	1.380		
PREV MO	6.14	5.24	8.06		WHEY	0.366	0.376	0.380	0.382	0.390	0.370	0.380						N/A
YR AGO	6.92	8.12	12.47		BUTTER	1.477	1.450	1.470	1.487	1.540	1.540	1.561						1.4500
					CME SPOT CHEESE: 40 LB BLOCKS													1.7000 / BARRELS 1.4600

USDA REPORTS: FINAL SEPTEMBER 2009	* = NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB)					
ALL-MILK MAILBOX	CL I ADV	CL II	CL III	CL IV	ALL-MILK U.S.	ALL-MILK PA	WK ENDING 12/04/09	PRODUCT	VALUE	MAKE ALLOW	NET	NOV. 2009 COMPONENTS
U.S. \$12.90 \$12.98	13.99 (DEC)	13.24 (NOV)	14.08 (NOV)	13.25 (NOV)	15.00 (NOV)	16.40 (NOV)	CHEESE	1.5169	0.2003	1.3166	1.3166	PROT 2.6991
PA \$14.20 \$12.98							BUTTER	1.3817	0.1715	1.2102	1.2102	B.FAT 1.4656
NY \$12.80 \$12.64	12.86	11.93	12.82	11.86	13.80	15.80	NFDM	1.1120	0.1678	0.9442	0.9442	N.FAT 0.9348
N.ENGL \$13.70 \$13.45							DRY WHEY	0.3471	0.1991	0.1480	0.1480	OTHER 0.1524
OH \$14.90 \$13.28	15.43	14.45	15.51	12.25	17.10	19.20						
APPAL \$15.20 \$13.94												

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — (Dec. 9, 2009))

COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lb)
1465	1025	1235	1100	1275	585	800	965	705
----- FOUR WEEK AVG -----								
1395	1025	1155	1145	1260	525	735	965	635

Avg. of prices reported by USDA Market News for PA Auction Markets Dec. 10-15, 2009

CULL MARKET COWS (\$/CWT LIVELWEIGHT)			
Premium White	Breakers	Boners	Lean
45.85	43.85	41.85	39.00
----- WEEK AGO -----			
44.00	43.35	41.50	38.60
----- YEAR AGO -----			
46.50	43.00	40.50	36.75

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