

CDE DAIRY MARKETS & MANAGEMENT UPDATE

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

Marketing Plan?

Historically, Joe Dairyman has concentrated on producing milk. When the milk went to market, Joe had faith that the price would cover production costs and return a profit. For the past 10 years, the Chicago Mercantile Exchange has provided an opportunity to set a price for milk before it is produced with Class III milk futures.


A marketing plan is a written document listing intentions for managing price risk and capturing profitable margins using the commodity markets. Joe's goal is to sell at a profit. Before he can recognize a profitable price, Joe needs to accurately estimate his cost of production using historical information like DHIA, financial records and the Penn State Income over Feed Cost (IOFC) tool, found on the web at <http://www.das.psu.edu/dairy-alliance/resources/income-over-feed-cost-tool>.

Joe's marketing plan starts by estimating breakeven costs of production for each upcoming month in the next year. Then he adds a profit margin that is reasonable for him. This sets minimum sales goals for each month and forces Joe to think about how much profit is enough. This removes some of the emotion from marketing because Joe's sales goals are set ahead of time. If Joe sees profitable margins during the September 25 & 26 LGM sales period, he will protect at least some of his anticipated milk production with Dairy Livestock

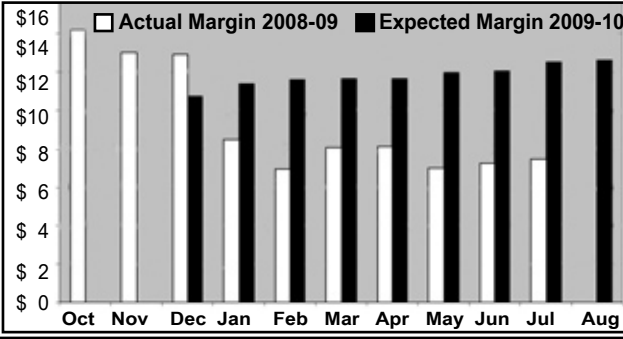
Gross Margin Insurance. Joe's first goal is to guarantee that he can cover his costs. Later in the year, if the futures market provides a more profitable margin, Joe will execute his strategy by increasing his Dairy LGM coverage or contracting milk with his co-op while pricing feed to protect that margin

Crop Insurance Note: Sept. 30, 2009 is the deadline to enroll or make changes for 2010 crop insurance policies for fall crops (wheat, barley, alfalfa based forage). Notice of damage is due at least 15 days before harvesting. Call your agent immediately if you suspect a loss.

The next Dairy LGM sales period is September 25 & 26.



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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.

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

	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10	MAR-10	APR-10	MAY-10	JUN-10	JUL-10	AUG-10
CLASS III MILK FUTURES (\$/CWT)	12.04	12.19	13.18	13.76	13.87	14.12	14.25	14.44	14.47	14.77	15.08	15.37
	12.08	12.11	12.95	13.15	13.47	13.50	13.56	13.85	14.07	14.52	14.82	15.00
WEEK AGO												
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED												
	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	15.00 9/09
	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	15.37 9/09
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38
NY	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44
VT	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44
NJ	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18
DE	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80
MD	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76
OH	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51	1.63	1.26
WV	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Sept. 11, 2009												
	1.24	0.74	0.68	0.25	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium												
	12.00 0.03	12.00 0.19	13.00 0.37	13.75 0.59	13.75 0.63	14.00 0.71	14.25 0.83	14.25 0.81	14.25 0.86	14.75 1.03	15.00 1.07	15.25 1.13



MILC = Milk Income Loss Contract AUG MILC (not shown) is estimated at \$1.64



IOFC = Income Over Feed Cost

* 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		OCT-09	DEC-09	JAN-10	MAR-10			
CORN (\$/BU) OPTIONS — CALLS				Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS						
2.10 1.053	2.20 1.093	2.40 1.006	2.50 1.001		250 31.20	250 30.05	260 32.05	250 32.85			
2.50 0.702	2.60 0.722	2.70 0.745	2.90 0.687		260 22.10	270 17.00	270 18.35	270 21.55			
2.90 0.356	3.00 0.441	3.20 0.406	3.30 0.460		280 8.55	300 6.40	300 7.50	300 10.65			
3.40 0.101	3.60 0.162	3.70 0.210	3.80 0.257		300 2.25	340 1.70	370 1.95	380 1.90			
CORN FUTURES (\$/BU)					SOYMEAL FUTURES (\$/TON)						
SEP-09	DEC-09	MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11
N/A	3.464	3.596	3.690	3.774	3.852	3.940	4.056	4.126	4.194	4.120	4.046
WEEK AGO											
3.026	3.074	3.210	3.304	3.390	3.474	3.576	3.702	3.772	3.830	3.780	3.732
SOYMEAL FUTURES (\$/TON)											
SEP-09	OCT-09	DEC-09	JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11
N/A	301.1	298.3	296.5	294.8	293.1	293.9	293.7	290.7	282.9	282.4	282.9
WEEK AGO											
343.5	290.3	284.5	283.5	282.7	281.2	282.7	282.7	279.2	267.0	266.5	267.0

MILK MARGIN — LATEST PSU VALUES — JULY 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 09/15/09								SPOT CASH		
FEED COST (\$/COW @ 65 lbs milk)		IOFC (\$/COW @ 65 lbs milk)	MILK MARGIN (as \$/CWT)	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	9/15/09
CURRENT*	4.08	4.37	6.72	NFDM	0.950	0.980	1.010	1.020	1.037	1.020	1.020	1.020	1.025	1.0125
PREV MO	4.25	4.13	6.36	WHEY	0.300	0.300	0.312	0.315	0.310	0.297	0.292	N/A	N/A	N/A
YRAGO	5.73	8.19	12.59	BUTTER	1.180	1.240	1.250	1.300	1.320	1.330	1.340	1.2400	1.2400	1.2400

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 09/04/09			AUG 2009			
10.93 (SEP)	10.86 (AUG)	11.20 (AUG)	10.38 (AUG)	11.80 (AUG)	13.20 (AUG)	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS		
MONTH AGO						CHEESE	1.2605	0.2003	1.0602	PROT 2.1009		
10.04	10.87	9.97	10.15	11.30	13.00	BUTTER	1.2030	0.1715	1.0315	B.FAT 1.2491		
YEAR AGO						NFDM	0.8666	0.1678	0.6988	N.FAT 0.6918		
17.65	17.45	17.32	16.64	18.40	20.50	DRY WHEY	0.2925	0.1991	0.0934	OTHER 0.0962		

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - (Sept 9, 2009)									
COWS: Fresh			Bred			Springing			HEIFERS: Bred
1250	765	1265	1225	1285	605	825	N/A	815	
FOUR WEEK AVG									
1215	825	1185	1075	1330	635	855	950	775	

FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)				CURRENT	WK AGO	YR AGO
Choice & Prime 1250-1550 lbs				70.00	70.85	83.50
BULL CALVES: No. 1 & 2, 85-130 lbs				80.00	79.50	78.00

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