

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — DECEMBER 29, 2009 — except where noted



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Does the futures market predict prices or create pricing opportunities?

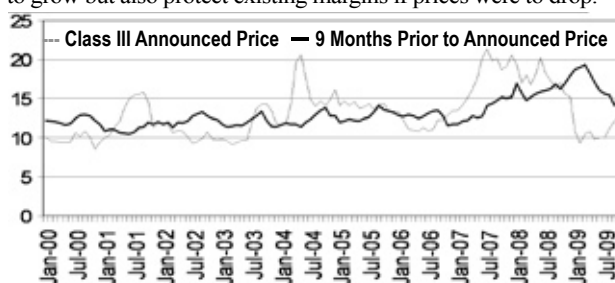
The light line on the graph (below, right) shows the final Class III price for each month since January of 2000. The darker line on the graph shows where that same contract traded nine months before closing. Does the dark line (the futures price) predict the final announced price (the light line)?

The graph data tell an interesting story. **Since 2000, the Class III milk price changed more than a \$1.00 in 93 of the 119 months shown on the graph (78% of the time). It fluctuated more than \$2.00 in 77 of those months (64% of the time) and more than \$3.00 in 32 months (26% of the time).** The largest price increase was \$9.22 from August 2003 to May 2004. The largest decrease over 9 months was \$9.74 when the February 2009 Class III milk contract crashed from \$19.05 in May 2008 to close at \$9.31. The graph shows trends, but where is the trend going now?

September 2010 Class III milk is trading over \$16.00/cwt. Use the 'basis' from below (\$2.37) to estimate the average Pennsylvania gross mailbox price for next September at over \$18.37. Joe Dairyman says "Futures markets are predicting higher prices next year, so I don't need to protect a price now!" Looking at this historical data, I would suggest that Joe should act when futures markets present a profitable opportunity because that pricing

opportunity may not last.

Dairy economists and forecasters have varied views on where milk and feed prices will be in 2010. They make their best predictions with the most accurate information available today. When newer supply and demand information become available these forecasts may change. As milk and feed futures markets create profitable margins for upcoming months, Joe Dairyman could protect them by buying a minimum price contract with his cooperative, a Dairy Gross Margin policy from his crop insurance agent, or a 'put' option from his broker. These tools all allow Joe to capture the upside if margins continue to grow but also protect existing margins if prices were to drop.



CME DAILY FUTURES & OPTIONS TRADING — DECEMBER 29, 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
14.91	14.33	14.15	14.59	14.85	15.22	15.64	16.05	16.10	16.21	16.08	15.90

WEEK AGO											
14.84	14.58	14.48	14.89	15.09	15.30	15.65	15.99	16.02	16.13	16.03	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	15.85 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	3.19
NY	1.97	2.32	2.11	2.32	1.04	1.43	1.57	1.61	1.44	1.39	2.17
VT	1.99	2.38	2.15	2.42	1.10	1.39	1.69	1.71	1.44	1.53	2.27
NJ	1.81	2.20	1.99	2.12	0.74	1.03	1.43	1.41	1.18	1.17	1.99
DE	2.43	2.82	2.61	2.74	1.36	1.65	2.05	2.03	1.80	1.79	2.61
MD	2.39	2.78	2.57	2.70	1.32	1.61	2.01	1.99	1.76	1.75	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
WV	1.83	2.22	2.01	2.14	0.76	1.05	1.45	1.43	1.20	1.19	2.01

MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., Dec. 18, 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 0.00	14.25 0.16	14.00 0.32	14.50 0.51	14.75 0.61	15.00 0.66	15.50 0.79	16.00 0.92	16.00 0.97	16.00 0.98	16.00 1.10	15.75 1.10

CORN (\$/BU) OPTIONS — CALLS				SOYMEAL (\$/TON) OPTIONS — CALLS			
3.15 1.014	3.20 1.080	3.40 1.024	3.50 1.032	270 36.35	270 37.05	280 34.95	280 35.60
3.65 0.553	3.70 0.653	3.80 0.722	3.90 0.764	280 27.85	280 30.25	300 24.35	300 25.45
4.15 0.225	4.30 0.297	4.30 0.446	4.40 0.514	300 14.40	300 18.25	330 14.00	330 15.55
4.50 0.104	5.00 0.110	5.80 0.103	6.40 0.102	350 1.65	400 1.65	470 1.85	440 1.65

CORN FUTURES (\$/BU)											
MAR-10	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12
4.170	4.270	4.354	4.396	4.452	4.542	4.602	4.654	4.586	4.542	4.622	4.692
WEEK AGO											
3.986	4.092	4.186	4.250	4.312	4.414	4.476	4.536	4.470	4.430	4.510	4.580

SOYMEAL FUTURES (\$/TON)											
JAN-10	MAR-10	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11
314.9	307.6	304.1	304.7	303.4	299.4	290.3	289.1	290.3	292.3	290.3	290.3
WEEK AGO											
298.5	294.1	291.0	291.3	290.5	286.6	278.6	277.5	278.6	280.6	278.6	278.6

MILK MARGIN — LATEST PSU VALUES — NOV 2009				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 12/29/09								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	12/29/09		
	(Now based on \$/CWT milk)			NFDM	1.285	1.295	1.285	1.275	1.245	1.245	1.252	1.3700	
	CURRENT	5.93*	6.81*	10.47*	WHEY	0.362	0.347	0.342	0.348	0.365	0.337	0.365	N/A
	PREV MO	5.82*	6.49*	9.98*	BUTTER	1.455	1.342	1.410	1.445	1.475	1.492	1.520	1.3275
YR AGO	6.87	8.02	12.31	CME SPOT CHEESE: 40 LB BLOCKS 1.5000 / BARRELS 1.4300									

ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)								CURRENT FEDERAL ORDER VALUES (\$/LB)				
CL I ADV*	CL II	CL III	CL IV	ALL-MILK U.S.	ALL-MILK PA	WK ENDING 12/18/09	NOV. 2009	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS
*15.03 (JAN)	13.24 (NOV)	14.08 (NOV)	13.25 (NOV)	15.00 (NOV)	16.40 (NOV)	CHEESE	1.5764	0.2003	1.3761			PROT 2.6991
MONTH AGO						BUTTER	1.4823	0.1715	1.3108			B.FAT 1.4656
YEAR AGO						NFDM	1.2701	0.1678	1.1023			N.FAT 0.9348
15.74	14.45	15.51	12.25	17.10	19.20	DRY WHEY	0.3629	0.1991	0.1638			OTHER 0.1524

CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales — New Holland, PA — (Dec. 23, 2009)											
COWS: Fresh			Bred			Springing			HEIFERS: Bred		
1335	750	1250	1165	1350	N/A	825	N/A	N/A	BULLS (600-1200 lb)		
FOUR WEEK AVG											
1410	900	1055	1150	1285	550	805	965	625			
Avg. of prices reported by USDA Market News for PA Auction Markets Dec. 24-28, 2009											
CULL MARKET COWS (\$/CWT LIVELWEIGHT)											
Premium White	Breakers	Boners	Lean								
48.25	47.00	44.50	43.00								
WEEK AGO											
45.85	43.85	41.85	39.00								
YEAR AGO											
50.75	48.00	45.00	42.00								

brought to you by:



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



* = NEW
IOFC =
Income
Over
Feed
Cost

USDA REPORTS: FINAL
SEPTEMBER 2009

ALL-MILK MAILBOX	PA	NY	N.ENGL	OH	APPAL
\$12.90	\$12.98	\$12.80	\$13.70	\$14.90	\$15.20
\$12.98	\$12.98	\$12.64	\$13.45	\$13.28	\$13.94

Price
averages
do not
include
lower-end
'common'
cows and
heifers.

Average
to high
dressing