

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — FEBRUARY 2, 2010 — except where noted



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## Milk Margin (Income over feed cost)

All businesses use words and abbreviations that are unique to that industry. Imagine a group of bankers listening to Joe Dairyman and his neighbors talking about preg rates, somatic cell counts, genomics, sexed semen and nutrient management. The bankers think that nutrient management involves balancing a feed ration. Business and economics professionals also use terms which can be difficult for dairy farmers to understand.

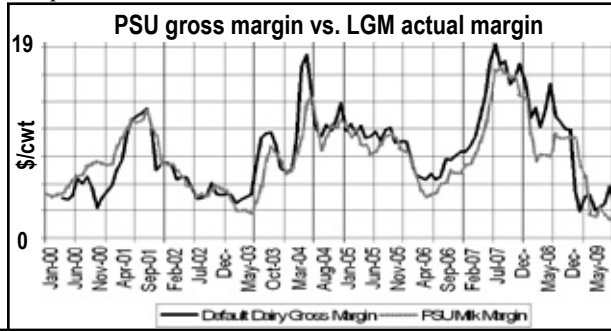
Webster's dictionary lists five definitions for the word margin. This is number four: "4 a: the difference which exists between net sales and the cost of merchandise sold and from which expenses are usually met or profit derived b: the excess market value of collateral over the face of a loan c (1): cash or collateral that is deposited by a client with a commodity or securities broker to protect the broker from loss on a contract (2): the client's equity in securities bought with the aid of credit obtained specifically (as from a broker) for that purpose d: a range about a specified figure within which a purchase is to be made."

For our discussion definition 4 a: is milk income over feed cost per hundred lbs of milk. Definition c (1) is the good faith money required to trade a futures contract.

The graph shows the default actual margin (income over feed cost / cwt of milk) for Dairy Gross Margin Insurance compared to the Penn State milk margin (income over feed cost / cwt of

milk) since January 2000. Jim Dunn from Penn State tracks milk and feed prices, then uses a theoretical ration for 65 lbs of milk to create the PSU margin. Default values for Dairy Gross Margin insurance assume that 1/2 bushel of corn and 4 lb of soybean meal are required to produce each cwt of milk. Closing futures prices from the CME each month provide the prices used to calculate this actual margin.

The graph clearly shows that while the actual values for these two historical benchmarks are different their trends are very comparable and almost match.



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 — FEBRUARY 2, 2010 CLOSE

|   | JAN-10   | FEB-10     | MAR-10     | APR-10     | MAY-10     | JUN-10     | JUL-10     | AUG-10     | SEP-10      | OCT-10     | NOV-10      | DEC-10      |
|---|--|------------|------------|------------|------------|------------|------------|------------|-------------|------------|-------------|-------------|
| <b>CLASS III MILK FUTURES (\$/CWT)</b>  | 14.47  | 13.86      | 13.43      | 13.11      | 13.38      | 14.05      | 14.80      | 15.10      | 15.36       | 15.34      | 15.29       | 15.30       |
|   | WEEK AGO   |            |            |            |            |            |            |            |             |            |             |             |
|   | 14.54  | 14.15      | 13.95      | 14.05      | 14.38      | 14.91      | 15.42      | 15.65      | 15.97       | 15.87      | 15.71       | 15.66       |
|   | HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED |            |            |            |            |            |            |            |             |            |             |             |
|   | 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 | 18.00 9/08 | 17.20 10/08 | 16.26 1/10 | 16.03 12/09 | 16.05 12/09 |
|   | 13.23 1/09   | 13.31 8/09 | 13.28 2/10 | 13.05 2/10 | 13.31 2/10 | 13.88 2/10 | 14.70 2/10 | 14.90 1/09 | 14.90 1/09  | 15.05 1/09 | 15.24 2/10  | 15.22 2/09  |
| <b>MILK BASIS (\$/CWT) — SELECTED NORTHEAST &amp; MID-ATLANTIC STATES (2008 Historical Reference)</b> |  |            |            |            |            |            |            |            |             |            |             |             |
| PA  | 3.40   | 3.19       | 3.32       | 1.94       | 2.23       | 2.63       | 2.61       | 2.38       | 2.37        | 2.87       | 3.19        | 3.01        |
| NY  | 2.32   | 2.11       | 2.32       | 1.04       | 1.43       | 1.57       | 1.61       | 1.44       | 1.39        | 1.79       | 2.17        | 1.97        |
| VT  | 2.38   | 2.15       | 2.42       | 1.10       | 1.39       | 1.69       | 1.71       | 1.44       | 1.53        | 1.99       | 2.27        | 1.99        |
| NJ  | 2.20   | 1.99       | 2.12       | 0.74       | 1.03       | 1.43       | 1.41       | 1.18       | 1.17        | 1.67       | 1.99        | 1.81        |
| DE  | 2.82   | 2.61       | 2.74       | 1.36       | 1.65       | 2.05       | 2.03       | 1.80       | 1.79        | 2.29       | 2.61        | 2.43        |
| MD  | 2.78   | 2.57       | 2.70       | 1.32       | 1.61       | 2.01       | 1.99       | 1.76       | 1.75        | 2.25       | 2.57        | 2.39        |
| OH  | 2.32   | 2.15       | 2.34       | 0.98       | 1.25       | 1.51       | 1.63       | 1.26       | 1.33        | 1.91       | 2.31        | 2.23        |
| WV  | 2.22   | 2.01       | 2.14       | 0.76       | 1.05       | 1.45       | 1.43       | 1.20       | 1.19        | 1.69       | 2.01        | 1.83        |
| <b>MILC PAYMENT (\$/CWT) FORECASTS</b> Based on Futures as of Thurs., Jan. 28, 2010                   | 0.00   | 0.00       | 0.00       | 0.00       | 0.00       | 0.00       | 0.00       | 0.00       | 0.00        | 0.00       | 0.00        | 0.00        |
| <b>CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium</b>                          | 14.25 0.00   | 13.75 0.07 | 13.25 0.25 | 13.00 0.35 | 13.25 0.47 | 14.00 0.60 | 14.75 0.70 | 15.00 0.75 | 15.25 0.76  | 15.25 0.80 | 15.25 0.86  | 15.25 0.90  |

|                                     | MAR-10     | MAY-10     | JUL-10     | SEP-10     |  | MAR-10                                  | MAY-10    | JUL-10    | AUG-10    |           |
|-------------------------------------|------------|------------|------------|------------|--|---|-----------|-----------|-----------|-----------|
| <b>CORN (\$/BU) OPTIONS — CALLS</b> | 2.60 0.991 | 2.70 1.005 | 2.80 1.021 | 2.90 1.027 | Example<br>Daily Strike<br>Price / Premium | <b>SOYMEAL (\$/TON) OPTIONS — CALLS</b> | 240 31.90 | 230 38.00 | 240 31.45 | 240 30.95 |
|                                     | 2.90 0.691 | 3.00 0.715 | 3.30 0.592 | 3.40 0.651 |  |   | 260 14.70 | 250 21.50 | 250 24.55 | 250 24.75 |
|                                     | 3.20 0.392 | 3.40 0.376 | 3.90 0.253 | 3.90 0.382 |  |   | 270 7.35  | 270 10.65 | 270 14.50 | 270 15.15 |
|                                     | 3.65 0.060 | 3.80 0.156 | 4.50 0.101 | 5.20 0.102 |  |   | 290 1.00  | 320 1.35  | 340 1.80  | 350 1.60  |

|                             | MAR-10   | MAY-10 | JUL-10 | SEP-10 | DEC-10 | MAR-11 | MAY-11 | JUL-11 | SEP-11 | DEC-11 | MAR-12 | MAY-12 |
|-----------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>CORN FUTURES (\$/BU)</b> | 3.650    | 3.762  | 3.862  | 3.940  | 4.010  | 4.122  | 4.192  | 4.242  | 4.194  | 4.184  | 4.254  | 4.314  |
|                             | WEEK AGO |        |        |        |        |        |        |        |        |        |        |        |
|                             | 3.622    | 3.732  | 3.826  | 3.894  | 3.954  | 4.056  | 4.124  | 4.176  | 4.142  | 4.132  | 4.202  | 4.266  |

|                                 | MAR-10   | MAY-10 | JUL-10 | AUG-10 | SEP-10 | OCT-10 | DEC-10 | JAN-11 | MAR-11 | MAY-11 | JUL-11 | AUG-11 |
|---------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>SOYMEAL FUTURES (\$/TON)</b> | 273.6    | 267.9  | 267.2  | 265.5  | 262.9  | 258.3  | 258.1  | 259.5  | 262.0  | 264.0  | 265.0  | 265.0  |
|                                 | WEEK AGO |        |        |        |        |        |        |        |        |        |        |        |
|                                 | 287.4    | 280.5  | 279.5  | 277.0  | 273.4  | 267.1  | 265.9  | 267.2  | 269.5  | 271.5  | 272.5  | 272.5  |

| * = NEW<br>IOFC =<br>Income<br>Over<br>Feed<br>Cost | MILK MARGIN — LATEST PSU VALUES — DEC 2009 |                                |                                 | CME DAIRY CASH-SETTLED FUTURES (\$/LB) 02/2/10        |       |       |       |       |       |       |         | SPOT CASH |
|---|--|--------------------------------|---------------------------------|---|-------|-------|-------|-------|-------|-------|---------|-----------|
|   | FEED COST<br>(Now based on \$/CWT milk)    | IOFC (\$/COW<br>@ 65 lbs milk) | PA MILK MARGIN<br>(\$/CWT milk) | JAN   | FEB   | MAR   | APR   | MAY   | JUN   | JUL   | 02/2/10 |           |
| CURRENT   | 5.83                                       | 7.78                           | 11.97                           | NFDM  | 1.189 | 1.085 | 1.075 | 1.090 | 1.085 | 1.130 | 1.130   | 1.1900    |
| PREV MO   | 5.88                                       | 6.84                           | 10.52                           | WHEY  | 0.382 | 0.342 | 0.280 | 0.263 | 0.265 | 0.270 | 0.280   | N/A       |
| YR AGO  | 6.83                                       | 6.67                           | 10.27                           | BUTTER  | 1.360 | 1.340 | 1.415 | 1.440 | 1.440 | 1.450 | 1.462   | 1.3100    |
|   |  |                                |                                 | CME SPOT CHEESE: 40 LB BLOCKS 1.5025 / BARRELS 1.4725 |       |       |       |       |       |       |         |           |

| COMMERCIAL<br>DISAPPEARANCE<br>JAN-NOV. 2009 | * = NEW 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 01/22/10                   | PRODUCT  | VALUE  | MAKE ALLOW | NET    | DEC. 2009 COMPONENTS |
| bill lbs change                              | 14.84 (FEB)                                     | 14.25 (DEC) | 14.98 (DEC) | 15.01 (DEC) | 16.30 (DEC)   | 17.90 (DEC) |                                      | CHEESE   | 1.5578 | 0.2003     | 1.3575 | PROT 2.8751          |
| All dairy -1.3%                              | MONTH AGO                                       |             |             |             |               |             |                                      | BUTTER   | 1.3350 | 0.1715     | 1.1635 | B.FAT 1.5433         |
| BUTTER -8.6%                                 | YEAR AGO  |             |             |             |               |             |                                      | NFDM     | 1.3201 | 0.1678     | 1.1523 | N.FAT 1.1068         |
| AM CHEESE +3.1%                              | 15.03   | 13.24       | 14.08       | 13.25       | 15.30         | 16.80       |                                      | DRY WHEY | 0.3893 | 0.1991     | 0.1902 | OTHER 0.1727         |
| OTHER CHEESE +1.4%                           |   |             |             |             |               |             |                                      |          |        |            |        |                      |
| NFDM -3.8%                                   | 10.72   | 11.21       | 15.28       | 10.35       | 15.50         | 17.10       |                                      |          |        |            |        |                      |
| FLUID MILK +1.2%                             |   |             |             |             |               |             |                                      |          |        |            |        |                      |

| Price<br>averages<br>do not<br>include<br>lower-end<br>common<br>cows and<br>heifers. | CATTLE FOR DAIRY PURPOSES (\$/HEAD) NORTHEAST (Average of USDA-Reported sales - New Holland, PA - (Jan. 27, 2010) |          |           |               |           |                   |             |              |                     |  |
|---|---|----------|-----------|---------------|-----------|-------------------|-------------|--------------|---------------------|--|
|   | COWS: Fresh   | Bred     | Springing | HEIFERS: Bred | Springing | Open: 300-600 lbs | 600-900 lbs | 900-1200 lbs | BULLS (600-1200 lb) |  |
|   | 1475  | N/A      | 1275      | 1250          | 1285      | 515               | 680         | N/A          | 625                 |  |
|   | FOUR WEEK AVG   |          |           |               |           |                   |             |              |                     |  |
|   | 1350  | 1175     | 1235      | 1205          | 1325      | 520               | 715         | 815          | 670                 |  |
|   | Avg. of prices reported by USDA Market News for PA Auction Markets Jan. 28-Feb. 1, 2010                           |          |           |               |           |                   |             |              |                     |  |
|   | CULL MARKET COWS (\$/CWT LIVELWEIGHT)   |          |           |               |           |                   |             |              |                     |  |
|   | Premium White   | Breakers | Boners    | Lean          |           |                   |             |              |                     |  |
|   | 55.00   | 50.85    | 47.75     | 45.50         |           |                   |             |              |                     |  |
|   | WEEK AGO  |          |           |               |           |                   |             |              |                     |  |
|   | 52.50   | 49.75    | 46.75     | 43.50         |           |                   |             |              |                     |  |
|   | YEAR AGO  |          |           |               |           |                   |             |              |                     |  |
|   | 56.00   | 53.25    | 48.00     | 47.75         |           |                   |             |              |                     |  |

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