

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — APRIL 6, 2010 — except where noted



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Put Option... A contract that provides the purchaser the right but not the obligation to sell a futures contract at an agreed price (*the strike price*) at any time during the life of the option. A 'put' option is like an insurance policy that creates a price floor for milk and other commodities. Cooperative minimum price contracts are essentially put options.

Look at the Class III milk July-10 column below. July milk is traded Tuesday at \$14.91. At the bottom of the box under the July column is the strike price for the put option trading closest to the July Class III price. The July "at the money" strike price shown on the chart is \$14.75. The *premium* or cost to buy this July put option is \$0.58 (listed to the right of the strike price).

Joe Dairyman wants to protect against a drop in milk price but not give up any potential increase in future milk prices.

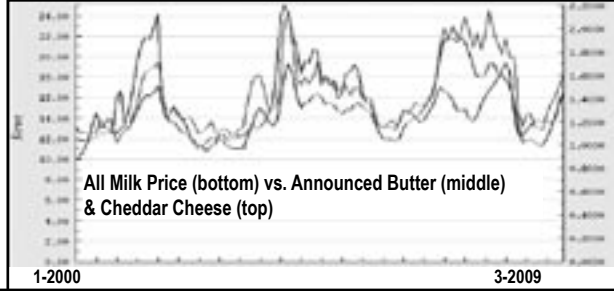
He will buy the July \$14.75 'put' for \$0.58 to set a price floor. The put option purchased through a broker is completely separate from Joe's milk check but relates this way:

Joe's July basis is around \$1.50. Adding this basis to the \$14.75/cwt that the put option insures, creates a mailbox price of \$16.25 for July 2010. Since the cost of the put option was \$.58, Joe's actual price floor is \$15.67 (\$14.75+\$1.50 - \$0.58 = \$15.67) for 200,000 lbs of milk. His estimated July production is 230,000 lbs, so one 'put' will cover almost all

of his July milk.

If July Class III prices improve to \$16.00, Joe should see about \$17.50 in his milk check. The put will expire worthless. If Class III prices fall to \$13.00, Joe will receive around \$14.50 in his milk check and then collect \$1.17/cwt from his margin account (\$14.75 put - \$13.00 close - \$0.58 premium = \$1.17)

April 29, 2010 is the deadline to report actual production for spring 2009 crops to your crop insurance agent. A record system that meets RMA/USDA standards is available at cropins.aers.psu.edu. Report winterkill damage immediately to your agent. Questions, Comments, Call me.



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 — APRIL 6, 2010 CLOSE

	APR-10	MAY-10	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
CLASS III MILK FUTURES (\$/CWT)	12.85	13.90	14.40	14.91	15.15	15.30	15.18	14.95	14.68	14.55	14.52	14.50
	12.60	13.33	14.09	14.57	14.94	15.22	15.10	14.94	14.67	14.53	14.44	14.50
WEEK AGO												
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED												
	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	16.33 7/09	16.25 7/09	16.00 7/09
	12.35 3/10	12.75 3/10	13.44 3/10	13.64 3/10	14.00 3/10	14.40 3/10	14.36 3/10	14.40 3/10	14.30 3/10	13.90 3/10	13.93 3/10	14.14 3/10
MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)												
PA	1.94	2.23	2.63	2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32
NY	1.04	1.43	1.57	1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32
VT	1.10	1.39	1.69	1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42
NJ	0.74	1.03	1.43	1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12
DE	1.36	1.65	2.05	2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74
MD	1.32	1.61	2.01	1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70
OH	0.98	1.25	1.51	1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34
WV	0.76	1.05	1.45	1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Thurs., April 1, 2010												
	0.2115	0.1260	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												
	12.75 0.05	13.75 0.26	14.25 0.48	14.75 0.58	15.00 0.77	15.25 0.86	15.00 0.83	14.75 0.79	14.50 0.83	14.50 0.92	14.50 0.97	14.00 0.78

	MAY-10	JUL-10	SEP-10	DEC-10		MAY-10	JUL-10	AUG-10	SEP-10	
CORN (\$/BU) OPTIONS — CALLS	2.40 1.057	2.50 1.076	2.60 1.093	2.80 1.012	Example Daily Strike Price / Premium	SOYMEAL (\$/TON) OPTIONS — CALLS	230 31.50	230 32.75	230 32.15	220 38.15
	2.80 0.657	3.00 0.585	3.10 0.634	3.20 0.685			240 21.85	240 24.20	240 24.75	240 23.50
	3.10 0.360	3.60 0.172	3.70 0.263	3.80 0.344			260 6.60	260 11.45	260 13.00	260 13.25
	3.45 0.074	4.00 0.063	4.30 0.101	4.80 0.104			280 1.15	310 1.40	320 1.65	330 1.75

	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12
CORN FUTURES (\$/BU)	3.464	3.580	3.684	3.796	3.920	4.000	4.060	4.056	4.056	4.146	4.214	4.276
	3.544	3.660	3.746	3.836	3.950	4.024	4.082	4.046	4.022	4.102	4.162	4.242
WEEK AGO												

	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11
SOYMEAL FUTURES (\$/TON)	263.1	262.3	260.2	256.4	250.5	249.9	250.9	253.7	255.2	256.7	257.4	257.4
	283.1	279.1	274.4	267.7	256.5	254.1	255.1	257.8	259.3	260.8	261.8	261.8
WEEK AGO												

* = NEW IOFC = Income Over Feed Cost	MILK MARGIN — LATEST PSU VALUES — FEB 2010				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 04/06/10								SPOT CASH
	FEED COST (Now based on \$/CWT milk)	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)		APR	MAY	JUN	JUL	AUG	SEP	OCT	04/06/10	
CURRENT	5.82	7.72	11.88		NFDM	1.090	1.110	1.190	1.210	1.220	1.230	1.210	1.2300
PREV MO	6.09	7.74	11.91		WHEY	0.347	0.330	0.325	0.322	0.325	0.337	0.330	N/A
YR AGO	6.69	4.43	6.81		BUTTER	1.475	1.510	1.550	1.545	1.555	1.585	1.582	1.4950
					CME SPOT CHEESE: 40 LB BLOCKS 1.4800 / BARRELS 1.4325								

USDA REPORTS: FINAL DECEMBER 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	WEIGHTED AVERAGE	PRODUCT	VALUE	MAKE ALOP	NET	MAR. 2009	COMPONENTS
ALL-MILK MAILBOX	13.22 (APR)	*14.46 (MAR)	*12.78 (MAR)	*12.92 (MAR)	*15.10 (MAR)	*17.30 (MAR)	MAR. 1-26, 2010	CHEESE	1.3632	0.2003	1.1629	MAR. 2009	PROT 2.1311
U.S. \$16.50							MAR. 2009	BUTTER	1.4388	0.1715	1.2673	MAR. 2009	B.FAT 1.5347
PA \$17.90							MAR. 2009	NFDM	1.0454	0.1678	0.8776	MAR. 2009	N.FAT 0.8688
NY \$16.70	14.34	15.65	14.28	12.90	15.90	*18.10	MAR. 2009	DRY WHEY	0.3761	0.1991	0.1770	MAR. 2009	OTHER 0.1823
N.ENGL \$17.50													
OH \$17.70													
APPAL \$18.60	10.36	10.36	10.44	9.64	11.80	13.00							

Price averages do not include lower-end common cows and heifers.	CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales March 31, 2010 at New Holland, PA)								
	COWS: Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open: 300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1200 lbs)
	1365	1165	1290	990	1240	455	790	N/A	875
	FOUR WEEK AVG								
	1230	995	1145	975	1185	480	765	800	780
Avg. of prices reported by USDA Market News for PA Auction Markets April 1-6, 2010									
CULL MARKET COWS (\$/CWT LIVELWEIGHT)									
	Premium White	Breakers	Boners	Lean					
	61.50	58.60	55.25	50.85					
	WEEK AGO								
	60.00	57.50	52.60	48.35					
	YEAR AGO								
	53.25	50.75	49.00	46.00					

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