

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — APRIL 20, 2010 — except where noted



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## Dairy LGM — 'Cash Flow Insurance'

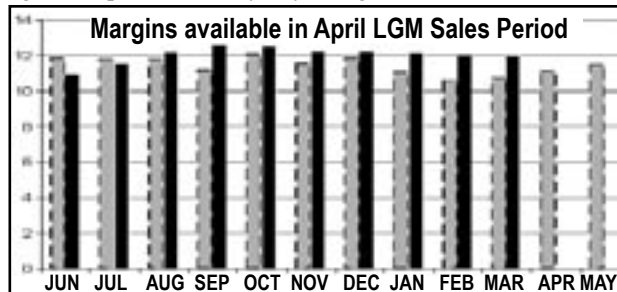
Dairy Livestock Gross Margin (LGM) does not need to be complex. I want to illustrate one of many strategies to buy Dairy LGM sold by approved crop insurance agents. LGM takes futures prices from the Chicago Mercantile Exchange to simultaneously create a price floor for your milk and a price ceiling for your feed. Producers may buy Dairy Gross Margin coverage on the last business Friday of each month until 9 pm the next day. You may elect to insure any portion of your production for one month or up to 10 months in the future.

Dairy Gross Margin sales began in August of 2008. The very informative University of Wisconsin "Understanding Dairy Markets" website <http://future.aae.wisc.edu/> supports software that allows you to look at the performance of historical LGM data from February of 2000 to the present.

Using this premium calculator, I looked at buying coverage for one month's production from a 100-cow herd (200,000 lbs or 2000 cwt) each and every month. In my example, I am spreading this production over the 10-month sales period at 10% per month. In this hypothetical example, I am purchasing coverage for 200 cwt of milk in each of the 10 policy months and for each monthly sales period since February 2000 using default feed values. The average premium over 10 years was \$.62/cwt. The average indemnity payment was

\$.79/cwt. So over the past 10 years Dairy LGM could have protected cash flow at no net cost. This discussion will continue. I welcome any questions or comments.

The graph below compares expected Dairy LGM margins (black) for the April sales period to the 10 year monthly average margins (gray). April 30-May 1 is the next Dairy LGM sales period. April 29, 2010 is the deadline to report your 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](http://cropins.aers.psu.edu). Report any winterkill damage to crops immediately to your agent.

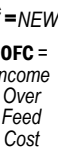


Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, using CME and USDA reports and the CDE Scorecard.

## CME DAILY FUTURES & OPTIONS TRADING — APRIL 20, 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
<b>CLASS III MILK FUTURES (\$/CWT)</b>	12.85	13.14	13.54	14.20	14.95	15.26	15.22	14.95	14.90	14.80	14.59	14.76
	WEEK AGO											
	12.81	13.00	13.12	13.65	14.32	14.74	14.74	14.51	14.50	14.50	14.50	14.50
	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	13.12 4/10	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
	<b>MILK BASIS (\$/CWT) — SELECTED NORTHEAST &amp; MID-ATLANTIC STATES (2008 Historical Reference)</b>											
	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
	<b>MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Thurs., April 15, 2010</b>											
	0.2115	0.0225	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>											
	12.75 0.00	13.00 0.17	13.50 0.46	14.00 0.50	14.75 0.70	15.25 0.87	15.00 0.78	14.75 0.76	14.75 0.83	14.50 0.79	14.50 0.92	14.50 0.89

MILC = Milk Income Loss Contract MAR. MILC (not shown) is estimated at \$0.00



	MAY-10	JUL-10	SEP-10	DEC-10		MAY-10	JUL-10	AUG-10	SEP-10			
<b>CORN (\$/BU) OPTIONS — CALLS</b>	2.40 1.077	2.50 1.074	2.60 1.087	2.80 1.001	Example Daily Strike Price / Premium	<b>SOYMEAL (\$/TON) OPTIONS — CALLS</b>						
	2.70 0.777	2.80 0.777	3.00 0.712	3.20 0.675		250 33.95	250 35.15	250 34.05	240 39.30			
	3.10 0.377	3.20 0.410	3.70 0.262	3.80 0.341		260 24.05	260 26.60	260 26.40	260 24.65			
	3.55 0.013	3.60 0.165	4.30 0.105	4.80 0.112		270 14.30	280 13.25	280 14.80	280 14.75			
						290 1.50	330 1.75	350 1.60	360 1.95			
<b>CORN FUTURES (\$/BU)</b>	MAY-10	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12
	3.554	3.652	3.750	3.852	3.976	4.062	4.124	4.106	4.102	4.192	4.262	4.322
	WEEK AGO											
	3.524	3.632	3.734	3.842	3.964	4.044	4.104	4.096	4.096	4.186	4.256	4.326
<b>SOYMEAL FUTURES (\$/TON)</b>	MAY-10	JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11
	287.5	287.3	284.4	278.9	270.1	268.6	269.3	271.1	271.9	273.9	274.4	273.0
	WEEK AGO											
	275.2	275.1	272.2	267.3	259.1	257.8	258.8	261.3	262.8	264.3	265.1	264.8

*NEW IOFC = Income Over Feed Cost	*FEED COST	*IOFC (\$/COW @ 65 lbs milk)	*PA MILK MARGIN (\$/CWT milk)	CME DAIRY CASH-SETTLED FUTURES (\$/LB) 04/20/10						SPOT CASH	
	(Now based on \$/CWT milk)			APR	MAY	JUN	JUL	AUG	SEP	OCT	04/20/10
CURRENT	*6.05	*7.31	*11.25	NFDM 1.110	1.152	1.215	1.227	1.242	1.262	1.270	1.2925
PREV MO	*5.95	*7.90	*12.15	WHEY 0.367	0.360	0.355	0.350	0.350	0.355	0.355	N/A
YR AGO	6.44	4.27	6.56	BUTTER 1.480	1.590	1.627	1.620	1.620	1.615	1.639	1.5700
				CME SPOT CHEESE: 40 LB BLOCKS 1.3650 / BARRELS 1.3450							

USDA REPORTS: FINAL JANUARY 2010	*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	WEIGHTED AVERAGE MAR. 1-26, 2010			MAR. 2009		
U.S. \$16.10 \$16.16	13.22 (APR)	14.46 (MAR)	12.78 (MAR)	12.92 (MAR)	15.10 (MAR)	17.30 (MAR)	PRODUCT	VALUE	MAKE ALOW	NET	COMPONENTS	
PA \$18.00 \$16.72			MONTH AGO				CHEESE	1.3632	0.2003	1.1629	PROT 2.1311	
NY \$16.80 \$15.97	14.34	15.65	14.28	12.90	15.90	18.10	BUTTER	1.4388	0.1715	1.2673	B.FAT 1.5347	
N.ENGL \$17.50 \$17.03	YEAR AGO						NFDM	1.0454	0.1678	0.8776	N.FAT 0.8688	
OH \$17.80 \$16.92	10.36	10.36	10.44	9.64	11.80	13.00	DRY WHEY	0.3761	0.1991	0.1770	OTHER 0.1823	
APPAL \$19.10 \$17.76												

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales April 14, 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 lb)
1325	N/A	1025	875	1125	450	645	500	690
FOUR WEEK AVG								
1285	995	1095	925	1175	445	715	625	755

Avg. of prices reported by USDA Market News for PA Auction Markets April 15-20, 2010

CULL MARKET COWS (\$/CWT LIVELWEIGHT)			
Premium White	Breakers	Boners	Lean
62.60	58.50	56.00	49.00
WEEK AGO			
62.35	58.25	54.25	49.75
YEAR AGO			
55.50	52.10	50.85	48.50

FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT) CURRENT WK AGO YR AGO  
Choice & Prime 1250-1550 lbs 82.00 84.50 74.50  
BULL CALVES: No. 1 & 2, 85-130 lbs 92.00 86.00 88.00

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