

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JUNE 8, 2010 — except where noted



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Price cycles

Cattle prices go through cycles just as milk and many other commodities do. When fed cattle prices increase, more feeder calves go into feedlots. The beef supply increases until there is not enough consumer demand to eat all of the beef that is produced. Then the prices for beef, fat cattle, feeder calves, cull dairy cows, bull calves and all beef related products drop, encouraging consumers to eat more beef instead of other meats.

The beef price cycle obviously affects Joe Dairyman's cull cow prices. Cull cow prices can indirectly affect milk prices. As beef prices increase, cull cow prices increase. Joe and his neighbors then cull a few more marginally profitable dairy cows. If this happens all across the country, dairy cow numbers may go down which could increase milk price.

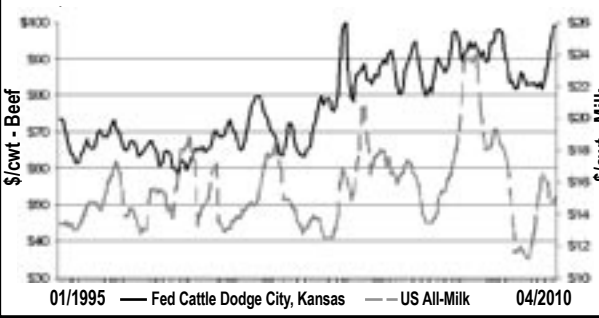
This week's graph compares the monthly all milk price in the United States to the Dodge City Kansas fed cattle price from 1995 to April 2010. There is not a direct relationship between cattle price and milk price, but the graph shows that in 1997, 2001, 2004 and 2008 cattle prices increased just before milk prices did. Milk prices do not move up or down every time those cattle prices do. Many other factors affect the supply of and demand for dairy products. Will milk prices follow the latest cattle price increase?

Joe Dairyman can easily look at graphs of past price cycles and say "I should have done this or that". These graphs may give Joe

some insight into the future, but he knows there are countless factors that affect his milk check every month. Joe's marketing plan is to hedge, not to speculate on market direction. His simple goal is to protect a profit whenever he can. He studies current trends to help decide which tools (LGM Dairy, Puts, Calls, or Fixed Price Contracts) make sense at this point in time.

I welcome suggestions or comments. June 25 & 26 is the next Dairy Gross Margin sales period. Visit our website for more information at www.centerfordairyexcellence.org.

Fed Cattle Price vs. All Milk price in U.S. 1995-Apr. 2010



CME DAILY FUTURES & OPTIONS TRADING — JUNE 8, 2010 CLOSE

	JUN-10	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11	APR-11	MAY-11
CLASS III MILK FUTURES (\$/CWT)	13.49	13.26	13.74	14.40	14.59	14.60	14.52	14.47	14.58	14.50	14.43	14.42
	WEEK AGO											
	13.54	13.30	13.84	14.45	14.57	14.64	14.67	14.57	14.60	14.68	14.61	14.62
	HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED											
	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	16.24 7/09	16.24 7/09
	13.12 4/10	13.24 6/10	13.74 6/10	14.39 5/10	14.36 3/10	14.40 3/10	14.30 3/10	13.90 3/10	13.93 3/10	14.14 3/10	14.06 3/10	14.42 6/10
	MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)											
	PA 2.63	2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23
	NY 1.57	1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43
	VT 1.69	1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39
	NJ 1.43	1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03
	DE 2.05	2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65
	MD 2.01	1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61
	OH 1.51	1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25
	WV 1.45	1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05
	MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Fri., May 28, 2010; *May & June* based on CI IV as CI I "mover"											
	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											
	13.25 0.11	13.25 0.28	13.50 0.42	14.25 0.60	14.50 0.70	14.50 0.70	14.50 0.79	14.25 0.73	14.50 0.85	14.50 0.93	14.25 0.88	14.25 0.93

MILC = Milk Income Loss Contract MAY MILC (not shown) is estimated at \$0.0



	JUL-10	SEP-10	DEC-10	MAR-11		JUL-10	AUG-10	SEP-10	OCT-10
CORN (\$/BU) OPTIONS — CALLS	2.30	1.057	2.40	1.056	2.50	1.056	2.70	1.011	
	2.60	0.757	2.70	0.755	2.90	0.685	3.10	0.671	
	2.95	0.410	3.10	0.412	3.50	0.306	3.70	0.345	
	3.35	0.091	3.50	0.175	4.20	0.112	4.70	0.115	
SOYMEAL (\$/TON) OPTIONS — CALLS	240	38.85	240	31.10	230	35.05	220	38.25	
	260	19.60	250	22.65	240	27.05	230	30.10	
	280	5.00	270	9.75	260	14.70	250	17.25	
	290	1.90	310	1.65	320	1.85	320	1.80	

	JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12	SEP-12
CORN FUTURES (\$/BU)	3.372	3.460	3.564	3.696	3.790	3.880	3.906	3.944	4.054	4.134	4.184	4.104
	WEEK AGO											
	3.540	3.640	3.752	3.882	3.970	4.052	4.032	4.036	4.142	4.212	4.256	4.162
SOYMEAL FUTURES (\$/TON)	276.8	266.3	259.1	251.6	250.3	250.9	252.1	252.1	253.6	253.1	250.6	247.6
	WEEK AGO											
	269.4	263.1	257.4	250.8	249.2	249.7	251.2	252.1	254.3	253.5	251.0	247.7

	JUN	JUL	AUG	SEP	OCT	NOV	DEC	06/08/10	SPOT CASH
MILK MARGIN — LATEST PSU VALUES — APR 2010									
FEED COST									
IOFC (\$/COW @ 65 lbs milk)									
PA MILK MARGIN (\$/CWT milk)									
CURRENT	5.44		7.00		10.76				
PREV MO	6.09		7.29		11.21				
YR AGO	6.23		4.66		7.17				
CME DAIRY CASH-SETTLED FUTURES (\$/LB) 06/08/10									
NFDM	1.257	1.220	1.190	1.205	1.190	1.190	1.190	1.2500	
WHEY	0.352	0.325	0.325	0.327	0.345	0.335	0.330	N/A	
BUTTER	1.600	1.660	1.660	1.660	1.660	1.655	1.680	1.5850	
CME SPOT CHEESE: 40 LB BLOCKS	1.3825	/ BARRELS		1.3500					

	CL I ADV	*CL II	*CL III	*CL IV	*ALL-MILK U.S.	*ALL-MILK PA	WEIGHTED AVERAGE MAY 1-28, 2010	MAY 2010
ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)	15.28 (JUN)	*14.90 (MAY)	*13.38 (MAY)	*15.29 (MAY)	*15.00 (MAY)	*16.60 (MAY)		
CURRENT FEDERAL ORDER VALUES (\$/LB)								
PRODUCT								
CHEESE	1.4257	0.2003	1.2254					PROT 2.1523
BUTTER	1.5801	0.1715	1.4086					B.FAT 1.7058
NFDM	1.2520	0.1678	1.0842					N.FAT 1.0734
DRY WHEY	0.3645	0.1991	0.1654					OTHER 0.1704

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales June 2, 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)
	1265	N/A	1150	N/A	1225	590	820	795	N/A
	FOUR WEEK AVG								
	1295	N/A	1145	1030	1275	595	830	830	820

Avg. of prices reported by USDA Market News for PA Auction Markets June 3-8, 2010

CULL MARKET COWS (\$/CWT LIVELWEIGHT)

	Premium White	Breakers	Boners	Lean
	63.35	59.35	56.60	53.50
	WEEK AGO			
	61.75	58.00	55.50	51.25
	YEAR AGO			
	54.00	51.75	50.10	46.00

FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT)

	Choice & Prime 1250-1550 lbs	CURRENT	WK AGO	YR AGO
		82.85	81.00	71.75
BULL CALVES: No. 1 & 2, 90-130 lbs		120.00	126.00	71.00
	80- 90 lbs	82.00	94.00	44.50

