

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUES., OCTOBER 25, 2011 — except where noted



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Milk Price Cycles?

Many world events influence milk prices. The U.S. economy, exports, feed prices, beef prices and many other factors will determine a cycle's high, low and length. The line graph illustrates the ups and downs of the all milk price in the U.S. since 1995. The chart below shows when these peaks occurred, the high price in that cycle and how many months that cycle lasted. Is this really a three year cycle?

Month	Oct-96	Jan-99	Nov-99	Sep-01	Jun-04	Nov-07	Aug-11
Peak Price	17.20	18.80	17.10	18.50	20.70	23.90	22.00
# Months since last Peak	33	27	10	22	33	41	46

While the average would be around three years, in the past sixteen years cycles have lasted from 10 – 45 months. Today it looks like the most recent cycle may have peaked in August after 45 months. Current milk futures would anticipate an all milk price over \$18.00 for most of 2012 and more than \$17.00 for much of 2013. Where will milk prices really be in 2012?

Joe Dairyman will prepare for 2012 by building cash reserves, buying dairy gross margin insurance, selling some milk contracts through his cooperative, buying milk put options (minimum

price contracts) and forward pricing some of his feed needs. Joe hopes that this cycle is not as devastating as the last one but his goal is to be prepared.

We hope you talked to your crop insurance agent earlier if you wish to buy coverage during the October 28 & 29 Dairy Gross Margin Insurance sales period. Most foresee vigorous sales, with many policies covering a large portion of producer's production for the maximum 10-month time period. Call your crop insurance agent immediately when you discover crop damage and follow up in writing (keep a copy for your records).

Call me with any questions or to schedule a meeting to explain all of the tools that can protect profits on your farm.



CME DAILY FUTURES & OPTIONS TRADING — OCTOBER 25, 2011 CLOSE

	OCT-11	NOV-11	DEC-11	JAN-12	FEB-12	MAR-12	APR-12	MAY-12	JUN-12	JUL-12	AUG-12	SEP-12
CLASS III MILK FUTURES (\$/CWT)	18.00	17.60	17.08	16.59	16.19	16.28	16.25	16.17	16.28	16.63	16.76	16.99
	----- WEEK AGO -----											
	17.92	17.65	17.23	16.61	16.30	16.22	16.15	16.13	16.36	16.69	16.79	17.00
	----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----											
	19.89 8/11	18.85 8/11	18.20 9/11	17.50 9/11	17.09 9/11	17.10 9/11	16.97 9/11	16.97 9/11	17.08 9/11	17.26 9/11	17.37 9/11	17.40 9/11
	14.51 9/10	14.40 9/10	14.40 9/10	14.65 9/10	14.65 12/10	14.88 12/10	14.90 12/10	14.90 12/10	15.30 12/10	15.44 12/10	15.45 12/10	15.47 10/10
MILK BASIS (\$/CWT) — PA & AVG OF 8 NORTHEAST/MIDEAST STATES (2008 Historical Reference - Individual basis will vary)												
PA	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63	2.61	2.38	2.37
*AVG	2.06	2.39	2.21	2.67	2.35	2.51	1.16	1.46	1.79	1.80	1.56	1.57
*MARGIN = Milk Price over Feed Cost per cwt.												
EXPECTED GROSS MARGINS* PER CWT. (default values at \$0.00 deductible) projected on Oct. 20, 21 and 22, 2011	N/A	N/A	12.93	12.57	12.21	12.20	12.15	12.14	12.28	12.56	12.85	13.16
10-YEAR AVERAGE ACTUAL GROSS MARGINS* PER CWT. (default values at \$0.00 deductible)	12.36	12.21	11.58	11.68	11.02	10.57	10.71	11.02	11.43	11.74	11.71	11.81
MILC PAYMENT (\$/CWT) FORECASTS Based on Futures as of Oct 7, 2011; *CII "mover" based on previous month's CI IV advance	0.00	0.00	0.00	0.00	0.1630	0.1935	0.1252	0.0769	0.0515	0.0697	0.00	0.00
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per CME Group website data)	18.00 0.02	17.50 0.20	17.00 0.54	16.50 0.70	16.00 0.73	16.25 0.90	16.25 1.05	16.00 1.03	16.25 1.18	16.50 1.23	16.75 1.36	16.75 1.35

	DEC-11	MAR-12	MAY-12	JUL-12		DEC-11	JAN-12	MAR-12	MAY-12
CORN (\$/BU) OPTIONS — CALLS	5.50 1.021	5.70 1.057	5.90 1.021	6.00 1.060	Example Daily Strike Price / Premium	285 37.80	290 35.20	300 32.25	300 36.25
	5.90 0.660	6.10 0.780	6.30 0.781	6.70 0.690		300 23.95	300 26.55	310 25.40	330 18.45
	6.50 0.245	6.60 0.504	6.70 0.582	7.50 0.410		320 9.60	320 13.05	330 14.50	350 11.00
	6.95 0.100	8.20 0.102	8.30 0.155	9.10 0.142		345 1.85	370 1.40	400 1.75	420 1.65
SOYMEAL (\$/TON) OPTIONS — CALLS	285 37.80	290 35.20	300 32.25	300 36.25					

	DEC-11	MAR-12	MAY-12	JUL-12	SEP-12	DEC-12	MAR-13	MAY-13	JUL-13	SEP-13	DEC-13	JUL-14
CORN FUTURES (\$/BU)	6.506	6.622	6.676	6.712	6.296	6.084	6.190	6.254	6.300	6.014	5.854	6.060
	----- WEEK AGO -----											
	6.440	6.526	6.582	6.622	6.186	5.986	6.100	6.166	6.214	5.976	5.786	5.996

	DEC-11	JAN-12	MAR-12	MAY-12	JUL-12	AUG-12	SEP-12	OCT-12	DEC-12	JAN-13	MAR-13	MAY-13
SOYMEAL FUTURES (\$/TON)	322.2	323.6	327.0	329.4	332.4	332.3	330.6	325.6	326.3	328.0	329.5	327.5
	----- WEEK AGO -----											
	324.3	326.0	328.0	328.5	330.6	330.1	328.0	321.5	321.5	323.2	324.7	322.7

* = NEW IOFC = Income Over Feed Cost	MILK MARGIN — LATEST PSU VALUES — SEPT. 2011				CME DAIRY CASH-SETTLED FUTURES (\$/LB) 10/25/11								SPOT CASH
	*FEED COST (Now based on \$/CWT milk)	*IOFC (\$/COW @ 65 lbs milk)	*PA MILK MARGIN (\$/CWT milk)		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	10/25/11
CURRENT	*8.61	*9.74	*15.09		NFDM	1.515	1.480	1.410	1.375	1.360	1.360	1.355	1.4900
PREV MO	*9.34	*9.66	*14.36		WHEY	0.615	0.612	0.595	0.560	0.540	0.505	0.490	N/A
YR AVO	6.58	8.46	13.02		BUTTER	1.780	1.840	1.744	1.725	1.720	1.740	1.775	1.8700
					CME SPOT CHEESE: 40 LB BLOCKS 1.6900 / BARRELS 1.7100								

USDA * JULY 2011* MAILBOX MILK PRICE	* = NEW ANNOUNCED FEDERAL ORDER PRICES (\$/CWT)						CURRENT FEDERAL ORDER VALUES (\$/LB) NEW							
	*CL I ADV	CL II	CL III	CL IV	ALL-MILK U.S	ALL-MILK PA	WEIGHTED AVG	*OCT 1-14, 2011	*SEPT. 2011	PRODUCT	VALUE	MAKE ALLOW	NET	COMPONENTS
U.S. \$21.90 \$21.74	*18.45 (NOV)	20.55 (SEP)	19.07 (SEP)	19.53 (SEP)	20.90 (SEP)	23.60 (SEP)	1.7437	0.2003	1.5434	CHEESE	1.7437	0.2003	1.5434	PROT 3.0282
PA \$23.50 \$22.21	----- MONTH AGO -----						1.7552	0.1715	1.5837	BUTTER	1.7552	0.1715	1.5837	B.FAT 2.2005
NY \$23.00 \$21.41	----- YEAR AGO -----						1.5328	0.1678	1.3650	NFDM	1.5328	0.1678	1.3650	N.FAT 1.3623
N. ENGL \$23.10 \$22.77	17.24	17.60	16.26	16.76	17.70	19.60	0.6121	0.1991	0.4130	DRY WHEY	0.6121	0.1991	0.4130	OTHER 0.4053
OH \$23.10 \$22.13														
APPAL \$24.30 \$22.82														

Price averages do not include lower-end common cows and heifers.	CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales Oct. 19, 2011 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)	
	1500	N/A	N/A	1250	1390	N/A	885	905	950	
	----- FOUR WEEK AVG -----									
	1610	N/A	1650	1240	1450	N/A	890	890	1015	
	Avg. of prices reported by USDA Market News for PA Auction Markets Oct. 20-25, 2011									
	FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT) CURRENT WK AVO YR AVO									
	Choice & Prime 1250-1550 lbs 99.75 101.60 84.50									
	BULL CALVES: No. 1 & 2, 90-130 lbs 128.00 124.00 94.00									
	80- 90 lbs 72.00 75.00 45.00									

Average to high dressing

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