

# CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — JULY 13, 2010 — except where noted



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## Joe Dairyman called me

"How can I protect a profit?" he asked. We discussed how many cows he milks, where his milk goes, where his feed comes from, and many other subjects on that first phone call. Since a ten minute discussion cannot answer his question, Joe and I scheduled a convenient time for us to meet. In the past year, I have done dozens of these meetings at kitchen tables and in farm offices, at profit team meetings and with one person. What do we discuss at a meeting?

I ask Joe what topics he wants to focus on, and then prepare materials to cover those topics using his information. An average agenda would look like this:

- Assess dairy farm risks with the Center for Dairy Excellence Risk Management Checklist
- The Center for Dairy Excellence Scorecard provides perspective on prices, margins, and other benchmarks.
- Explain where the Markets and Management Update values come from and what they mean.
- What pricing opportunities are available to me?
- What is a margin and why should I care?
- How do I use basis to anticipate my milk price?
- What is an option on a futures contract?
- What is Dairy Gross Margin Insurance?
  - How does LGM work, and where do I buy it?
  - How do I use LGM and what does it cost?

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.

No one learns all about price risk management in a one or two hour meeting. Depending on your level of understanding, we can focus on the basics, like terms and tools. Or we can discuss a marketing plan strategy. Just like every other part of your farm business, this is an ongoing learning process. Call me.

The next Dairy Gross Margin (LGM) sales period is July 30-31. August 2 is the deadline to enroll or make changes to a fall forage seeding policy. Pasture Rainfall Index policies are now available in all of Pennsylvania.

## Announced Class III Future Prices — Contract Date Aug. 2010



## CME DAILY FUTURES & OPTIONS TRADING — JULY 13, 2010 CLOSE

JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11	APR-11	MAY-11	JUN-11
<b>CLASS III MILK FUTURES (\$/CWT)</b>											
13.73	14.74	15.00	14.89	14.75	14.64	14.50	14.40	14.52	14.43	14.39	14.37
WEEK AGO											
13.51	14.62	15.00	14.97	14.78	14.72	14.52	14.50	14.45	14.40	14.35	14.31

HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED

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	15.80 8/09
13.18 6/10	13.57 6/10	14.25 6/10	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	14.30 6/10	14.27 6/10

## MILK BASIS (\$/CWT) — SELECTED NORTHEAST & MID-ATLANTIC STATES (2008 Historical Reference)

	PA	NY	VT	NJ	DE	MD	OH	WV
PA 2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32
NY 1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.21	2.32
VT 1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42
NJ 1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12
DE 2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74
MD 1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70
OH 1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34
WV 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 Fri., July 9, 2010; \*June & July\* 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
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## CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium

13.50 0.00	14.50 0.17	15.00 0.52	14.75 0.59	14.75 0.68	14.50 0.66	14.50 0.80	14.25 0.77	14.50 0.89	14.25 0.85	14.25 0.92	14.25 0.97
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SEP-10	DEC-10	MAR-11	MAY-11	Example	AUG-10	SEP-10	OCT-10	DEC-10
<b>CORN (\$/BU) OPTIONS — CALLS</b>				Daily Strike Price / Premium	<b>SOYMEAL (\$/TON) OPTIONS — CALLS</b>			
2.75 1.004	2.80 1.074	3.00 1.015	3.10 1.014		260 37.05	250 36.70	240 39.00	250 32.55
3.00 0.755	3.20 0.710	3.40 0.683	3.50 0.701		270 27.10	270 19.90	260 22.60	260 25.65
3.30 0.474	3.90 0.263	4.00 0.336	4.10 0.365		280 17.40	290 8.25	280 11.50	280 15.35
3.75 0.163	4.50 0.103	5.00 0.103	5.40 0.101		300 3.30	330 1.60	330 1.90	370 1.65

## CORN FUTURES (\$/BU)

JUL-10	SEP-10	DEC-10	MAR-11	MAY-11	JUL-11	SEP-11	DEC-11	MAR-12	MAY-12	JUL-12	SEP-12
3.666	3.752	3.870	3.992	4.074	4.142	4.134	4.134	4.240	4.300	4.350	4.246
WEEK AGO											
3.600	3.680	3.792	3.916	3.996	4.070	4.060	4.050	4.146	4.216	4.254	4.152

## SOYMEAL FUTURES (\$/TON)

JUL-10	AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11	OCT-11
312.9	297.0	285.8	277.5	276.9	276.4	276.6	275.7	277.4	275.9	272.9	268.4
WEEK AGO											
297.2	286.7	273.8	263.4	262.4	262.6	263.6	263.5	265.5	264.0	261.0	258.0

## \*NEW MILK MARGIN — LATEST PSU VALUES — MAY 2010

	FEED COST	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)	CME DAIRY CASH-SETTLED FUTURES (\$/LB) 07/13/10	SPOT CASH 07/13/10
IOFC = Income Over Feed Cost					
CURRENT	5.40	7.28	11.20	NFDM 1.175 1.180 1.177 1.170 1.170 1.150 1.150 1.150	1.2125
PREV MO	5.46	7.05	10.84	WHEY 0.365 0.352 0.345 0.337 0.335 0.335 0.330	N/A
YR AGO	6.70	4.36	6.70	BUTTER 1.725 1.760 1.735 1.725 1.712 1.633 1.595	1.7700

## \*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 FOR JUNE 2010	JUNE 2010 COMPONENTS
15.66 (JUL)	16.01 (JUN)	13.62 (JUN)	15.45 (JUN)	15.80 (JUN)	17.90 (JUN)	PRODUCT VALUE MAKEALLOW NET	
						CHEESE 1.4475 0.2003 1.2472	PROT 2.2040
						BUTTER 1.5946 0.1715 1.4231	B.FAT 1.7234
						NFDM 1.2631 0.1678 1.0953	N.FAT 1.0843
						DRY WHEY 0.3688 0.1991 0.1697	OTHER 0.1748

## CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. USDA-Reported sales July 7, 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)
1340	N/A	1290	1065	1065	N/A	590	N/A	N/A
FOUR WEEK AVG								
1325	N/A	1195	1105	1160	525	670	910	730

Avg. of prices reported by USDA Market News for PA Auction Markets July 8-13, 2010

## CULL MARKET COWS (\$/CWT LIVELWEIGHT)

Premium White	Breakers	Boners	Lean
64.25	62.10	59.10	55.10
WEEK AGO			
66.50	62.50	59.10	55.35
YEAR AGO			
56.10	53.10	50.25	46.50

Price averages do not include lower-end common cows and heifers.

Average to high dressing

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