

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — FRI., JULY 16, 2010 — except where noted



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EDITOR'S NOTE: Due to the editor of this Markets & Management Update being away at a dairy meeting this week, last Friday's closing commodity future prices are used instead of this Tuesday's.

Deductibles? Joe Dairyman's checkbook balance has not improved a lot in the past year. He always watches his costs, but this cycle forced him to be even more cost-conscious.

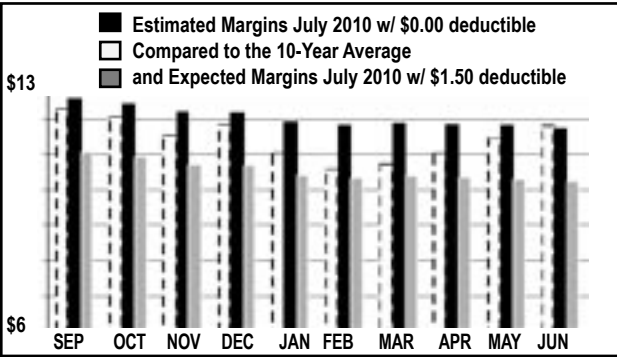
Markets have been very active lately. As I write this—since the beginning of July—December corn has moved from \$3.45 to over \$4.00 a bushel. November soybeans increased \$0.80 per bushel. November soybean meal is up \$25 per ton. August Class III milk is up \$0.80/cwt. Broad indexes of all commodities are up 3 - 4% and the Dow Jones Industrial Average is up 3 - 4%. Which direction will the markets go next?

Joe cannot afford to miss an opportunity if milk prices recover faster than the markets project, but his business cannot survive another downturn in margins. Dairy Gross Margin (LGM Dairy) insurance can provide protection against low margins in the future without sacrificing any of the upside potential from his milk check.

By using deductibles, he can lower his insurance cost to protect against catastrophic price decreases. Producers can select deductible levels between \$0.00 and \$1.50 per hundredweight of milk in \$0.10 increments. The graph (at right) compares the ten year monthly average margin at \$0.00 deductible to the projected margins for the July sales period at deductibles of \$0.00 and \$1.50 per hundredweight. At \$0.00 deductible, the projected cost is \$0.68/cwt

with 52% probability of a payment. The projected cost for the \$1.50 deductible is \$0.15/cwt with a payout 18% of the time. Using premium deductibles Joe can minimize his cost to protect his future cash flow.

The next Dairy Gross Margin (LGM) sales period is July 30 & 31. August 2, 2010 is the deadline to enroll or make changes to a fall forage seeding policy. Pasture Rainfall Index policies are now available in all of Pa. I am available to discuss the various ways that you can manage your risks and welcome any suggestions or comments.



CME DAILY FUTURES & OPTIONS TRADING — JULY 16, 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
CLASS III MILK FUTURES (\$/CWT)	13.76	14.90	14.98	14.92	14.68	14.72	14.44	14.42	14.53	14.50	14.52	14.43
	----- WEEK AGO -----											
	13.64	14.53	14.82	14.84	14.70	14.57	14.48	14.40	14.47	14.38	14.40	14.30
	----- 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 2.61	2.38	2.37	2.87	3.19	3.01	3.40	3.19	3.32	1.94	2.23	2.63
	NY 1.61	1.44	1.39	1.79	2.17	1.97	2.32	2.11	2.32	1.04	1.43	1.57
	VT 1.71	1.44	1.53	1.99	2.27	1.99	2.38	2.15	2.42	1.10	1.39	1.69
	NJ 1.41	1.18	1.17	1.67	1.99	1.81	2.20	1.99	2.12	0.74	1.03	1.43
	DE 2.03	1.80	1.79	2.29	2.61	2.43	2.82	2.61	2.74	1.36	1.65	2.05
	MD 1.99	1.76	1.75	2.25	2.57	2.39	2.78	2.57	2.70	1.32	1.61	2.01
	OH 1.63	1.26	1.33	1.91	2.31	2.23	2.32	2.15	2.34	0.98	1.25	1.51
	WV 1.43	1.20	1.19	1.69	2.01	1.83	2.22	2.01	2.14	0.76	1.05	1.45
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
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium	13.75 0.03	14.75 0.17	14.75 0.40	14.75 0.56	14.50 0.58	14.50 0.62	14.25 0.70	14.25 0.75	14.50 0.88	14.50 0.93	14.50 0.99	14.25 0.94

MILC = Milk Income Loss Contract JUNE MILC is estimated at *\$0.00

CORN (\$/BU) OPTIONS — CALLS

SEP-10	DEC-10	MAR-11	MAY-11
2.90 1.025	3.00 1.063	3.10 1.084	3.20 1.074
3.25 0.683	3.50 0.634	3.60 0.685	3.60 0.763
3.50 0.460	4.10 0.287	4.20 0.364	4.20 0.426
3.95 0.166	4.90 0.101	5.40 0.104	5.40 0.127

Example Daily Strike Price / Premium

SOYMEAL (\$/TON) OPTIONS — CALLS

AUG-10	SEP-10	OCT-10	DEC-10
270 37.65	260 39.05	260 33.85	260 35.70
280 27.75	280 21.90	270 26.20	270 28.75
290 17.90	300 10.30	290 14.05	290 18.00
310 3.50	340 1.85	350 1.75	390 1.75

CORN FUTURES (\$/BU)

SEP-10	DEC-10	MAR-11	MAY-11	JUL-11
3.946	4.072	4.176	4.246	4.304
----- WEEK AGO -----				
3.834	3.952	4.070	4.150	4.212

SOYMEAL FUTURES (\$/TON)

AUG-10	SEP-10	OCT-10	DEC-10	JAN-11	MAR-11	MAY-11	JUL-11	AUG-11	SEP-11	OCT-11	DEC-11
307.8	298.2	291.2	290.0	288.7	288.3	286.6	287.8	286.3	283.3	278.3	279.0
----- WEEK AGO -----											
300.9	288.6	279.8	279.2	278.7	278.7	277.7	279.7	278.4	275.4	271.4	272.0

*NEW MILK MARGIN — LATEST PSU VALUES — MAY 2010

	FEED COST	IOFC (\$/COW @ 65 lbs milk)	PA MILK MARGIN (\$/CWT milk)
CURRENT	5.40	7.28	11.20
PREV MO	5.46	7.05	10.84
YR AGO	6.70	4.36	6.70

CME DAIRY CASH-SETTLED FUTURES (\$/LB) 07/16/10

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	07/16/10
NFDM	1.175	1.170	1.171	1.170	1.160	1.160	1.150	1.2175
WHEY	0.365	0.357	0.325	0.350	0.335	0.340	0.352	N/A
BUTTER	1.730	1.770	1.760	1.730	1.710	1.630	1.597	1.7750

CME SPOT CHEESE: 40 LB BLOCKS 1.5750 / BARRELS 1.5250

*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
15.66 (JUL)	16.01 (JUN)	13.62 (JUN)	15.45 (JUN)	15.80 (JUN)	17.90 (JUN)	PRODUCT VALUE MAKEALLOW NET	COMPONENTS
						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 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	1200	1065	1090	1190	505	730	950	640
----- FOUR WEEK AVG -----								
1335	1200	1160	1075	1130	505	675	910	675

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

CULL MARKET COWS (\$/CWT LIVELWEIGHT)

Premium White	Breakers	Boners	Lean
64.25	59.75	58.00	53.75
----- WEEK AGO -----			
64.25	62.10	59.10	55.10
----- YEAR AGO -----			
55.60	53.35	51.25	46.25

FED HOLSTEIN STEERS (\$/CWT LIVELWEIGHT) CURRENT WK AGO YR AGO

Choice & Prime 1250-1550 lbs	79.25	84.25	72.85
BULL CALVES: No. 1 & 2, 90-130 lbs	89.50	88.00	66.00
80- 90 lbs	37.50	55.00	46.00

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

Average to high dressing

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