

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUESDAY, JUNE 4, 2019 — except where noted



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Class I price formula change: For many years, the USDA has been using a formula to calculate the Class I (fluid milk) price based on the higher price between the Advance Class III (cheese) and Advance Class IV (butter and powder) price plus a location differential. This was beneficial to the dairy farmer, but made it especially difficult for fluid milk processors to contract milk on the futures market. Because of the volatility of milk prices, processors were hesitant to purchase milk too far out into the future because they could not predict which class of milk was going to be the "higher of."

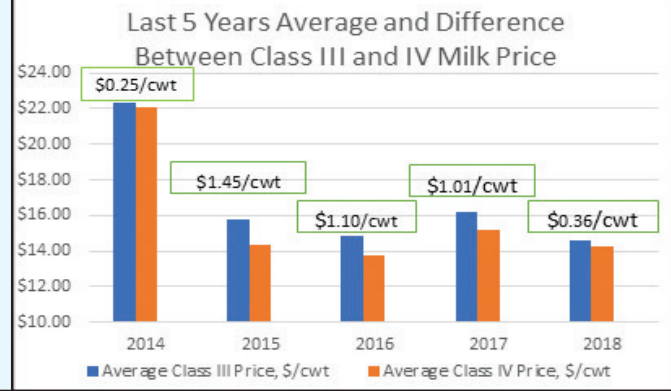
This pricing scheme also made it difficult for farmers in higher Class I utilization markets to lock in a Class I price because of the same problem the processors were having. If Class III and IV milk prices cannot be accurately predicted, there is a reasonable fear of making a mistake in locking in a milk price based on futures markets. Milk prices have been suppressed for four years now. With dairy farms selling out across the country, the U.S. government has taken notice of the plight the nation's dairy farmers are going through and have tried to address the volatility.

As a result, Class I price determination changed based on language in the 2018 Farm Bill. On May 1, 2019, the Class I price switched from the "higher of" to the simple average of Class III and IV price plus 74 cents plus the location differential. Why plus 74 cents? Historically, Class III is higher than Class IV. The government realized that changing from a formula using the "higher of" to a simple average would result in a net reduction in pay price to dairy farmers. The 74 cents represents the historic average between Class III and Class IV price plus an additional cushion to try to compensate dairy farmers for the reduction in the Class I price.

Over time, the pay price is expected to average out and allow processors to better predict what their costs will be when hedging milk further into the

future. Better processor participation in futures hedging should help take some of the volatility out of the futures market.

At first glance, the Class I price change may seem like another negative thing for struggling dairy farmers to deal with. Taking a closer look at it and understanding why the change was made, theoretically, should benefit dairy farmers in the long term. The 2018 Farm Bill has put an emphasis on trying to help take some of the unpredictability out of the market. Consider what options are available to manage risk now. With this pricing change, Dairy Margin Coverage and Dairy Revenue Protection, dairy farmers across the nation have some excellent tools to manage price risk.



CME DAILY FUTURES & OPTIONS TRADING — JUNE 4, 2019 AT THE CLOSE

	MAY-19	JUN-19	JUL-19	AUG-19	SEP-19	OCT-19	NOV-19	DEC-19	JAN-20	FEB-20	MAR-20	APR-20	TREND	
CLASS III MILK FUTURES (\$/CWT)	16.39	15.92	16.31	16.78	17.09	17.10	17.00	16.65	16.36	16.30	16.28	16.39	↑↑	
WEEK AGO	16.38	16.08	16.40	16.70	16.95	16.92	16.78	16.50	16.25	16.25	16.24	16.35		
HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED	16.90 02/17	16.85 02/17	16.90 02/17	16.99 05/17	17.18 05/17	17.14 05/19	17.00 06/19	16.65 05/19	16.36 06/19	16.30 05/19	16.28 06/19	16.39 06/19		
	13.85 01/18	13.75 01/18	13.62 01/18	13.62 01/18	13.55 01/18	13.75 01/18	14.08 11/18	14.60 11/18	14.62 11/18	14.63 11/18	14.59 11/18	14.65 11/18		
MILK BASIS (\$/CWT) — PA BASIS & 2014-16 AVG OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)	PA 1.60	1.28	1.01	0.85	1.33	1.87	1.70	2.75	2.30	1.81	1.58	1.19		
*AVG	2.14	1.80	1.12	0.90	1.32	1.82	1.65	2.72	2.70	2.25	2.02	1.25		
EXPECTED LGM GROSS MARGINS* (at 0.00 deductible) per cwt. based on futures prices for Class III milk, soybeans, corn as of Dec. 13, 14 and 15, 2018	N/A	5.97	6.53	6.92	7.10	7.27	7.51	7.72	7.93	7.80	7.73	N/A		
3-YR. AVG LGM ACTUAL GROSS MARGINS (at 0.00 deductible) per cwt. based on historical futures contract close-out prices Class III milk, soybeans and corn	6.85	5.99	6.65	6.33	6.06	5.72	4.94	4.15	5.26	5.62	6.52	6.85		
MPP/DMC OFFICIAL GROSS MARGINS & 1-MO 2018 ON per cwt. (USDA All-Milk, com/alfalfa hay & Illinois soybean prices, feed for all classes of dairy cattle on the farm)	MAR-18	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	SEP-18	OCT-18	NOV-18	DEC-18	JAN-19	*FEB-19	*MAR-19	
	6.77	6.62	6.78	7.37	6.72	7.43	8.26	8.96	8.66	7.85	7.99	8.22	*8.85	↑↑
U.S. AVG MILK MARGIN per 100 lbs milk based on 75-lb herd avg & USDA's All-Milk price, USDA-reported com & alfalfa hay & Ill. soybean prices (lactating feed only)	APR-18	MAY-18	JUN-18	JUL-18	AUG-18	SEP-18	OCT-18	NOV-18	DEC-18	JAN-19	*FEB-19	*MAR-19	*APR-19	
	9.82	10.04	10.40	9.62	10.24	11.00	11.73	11.40	10.63	10.79	*11.00	*11.22	↑↑ estimated 11.60	
PA AVG MILK MARGIN per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA com & alfalfa hay & Buff., NY soybean prices (lactating feed only)	10.25	10.71	11.10	10.26	10.04	11.01	11.68	11.29	10.46	10.37	*11.34	*11.90	↑↑ estimated 11.93	

CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium																							
16.50	0.11	16.00	0.06	16.50	0.26	16.75	0.30	17.00	0.35	17.00	0.39	17.00	0.51	16.75	0.63	16.50	0.69	16.25	0.63	16.25	0.66	16.50	0.74
JUL-19				DEC-19				MAR-19				MAY-20				Example Daily Strike Price / Premium							
CORN (\$/BU) OPTIONS — CALLS																							
3.65	54.40	3.90	56.10	4.20	45.70	4.10	53.10	300	20.20	310	20.00	320	21.25	320	21.90								
4.70	03.40	6.30	03.40	6.40	03.70	6.20	03.40	330	03.60	355	04.55	420	02.00	410	02.60								

CORN FUTURES (\$/BU)												
JUL-19	SEP-19	DEC-19	MAR-20	MAY-20	JUL-20	SEP-20	DEC-20	MAR-21	MAY-21	JUL-21	SEP-21	TREND
4.146	4.242	4.334	4.420	4.470	4.450	4.464	4.174	4.130	4.206	4.256	4.300	↓↓
WEEK AGO												
4.186	4.280	4.356	4.444	4.470	4.490	4.204	4.190	4.266	4.324	4.360	4.180	

SOYMEAL FUTURES (\$/TON)												
JUL-19	AUG-19	SEP-19	OCT-19	DEC-19	JAN-20	MAR-20	MAY-20	JUL-20	AUG-20	SEP-20	OCT-20	TREND
317.7	319.2	321.0	322.8	326.3	327.9	328.0	328.5	330.6	330.6	330.2	329.1	↑↑
WEEK AGO												
319.0	320.1	321.7	323.1	326.2	327.4	327.1	327.9	329.7	329.8	329.6	328.7	

*NEW PA MILK MARGIN & IOFC—LATEST PSU VALUES — *MAR. 2019				CME DAIRY CASH-SETTLED FUTURES (\$/LB)											
FEED = \$/CWT	*FEED COST (\$/CWT milk)	*IOFC (\$/COW @ 75 lbs milk)	*PA MILK MARGIN (\$/CWT milk)	MAY	JUN	JUL	AUG	SEP	OCT	NOV	06/04/19	SPOT CASH	TREND		
*MAR	*6.73 ↓↓	*8.93 ↑↑	*11.90 ↑↑	1.014	1.034	1.045	1.057	1.070	1.083	1.097	1.0525	↑↑			
IOFC = *PREV MO	*6.56	*8.51	*11.34	0.381	0.372	0.360	0.358	0.358	0.355	0.355	0.3525	↓↓			
YR AGO	6.10	7.43	9.90	2.292	2.370	2.397	2.410	2.423	2.410	2.374	2.3500	↓↓			
				1.694	1.649	1.698	1.746	1.778	1.783	1.775	See Below				
				CME SPOT CHEESE: BARRELS 1.4850 / 40 LB BLOCKS 1.7200								↓↓ / ↑↑			

USDA FEB. 2019 ALL-MILK MAILBOX										*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. 4-WK MAY 1-31, 2019	PRODUCT VALUE MAKE ALLOW NET				MAY 2019 COMPONENTS								
17.01 (JUNE)	16.48 (MAY)	16.38 (MAY)	16.29 (MAY)	17.70 (APR)	18.30 (APR)	1.6974	1.6974	0.2003	1.4971	1.4971	1.4971	1.4971	*PROT 2.1159	↑↑					
MONTH AGO																			
16.42	16.38	15.96	15.72	17.50	18.50	2.2952	2.2952	0.1715	2.1237	2.1237	2.1237	2.1237	*B.FAT 2.5718	↑↑					
YEAR AGO																			
15.25	14.47	15.18	14.57	15.80	16.40	1.0149	1.0149	0.1678	0.8471	0.8471	0.8471	0.8471	*N.FAT 0.8386	↑↑					
*DRYWHEY 0.3784 0.1991 0.1793 ↓↓ *OTHER 0.1847 ↓↓																			

CATTLE - DAIRY PURPOSES (\$/HD) NORTHEAST (Avg. May 29, 2019 sale New Holland, PA) *MOST RECENT REPORT												
COWS Fresh	Bred	Springing	HEIFERS: Bred	Springing	Open:	300-600 lbs	600-900 lbs	900-1200 lbs	BULLS (600-1800 lb)			
1150	1000	1100	1050	1085		325	695	N/A	800			
FOUR WEEK RUNNING AVG												
1150	950	1000	975	1050		350	600	600	800			
Avg. of prices reported by USDA Market News for PA & NY Auction Markets May 30 - June 4, 2019												
CULL MARKET COWS (\$/CWT LIVELWEIGHT)												
Premium White	Breakers	Boners	Lean									
N/A	69.00 ↓↓	67.75 ↓↓	59.60 ↑↑									
WEEK AGO												
N/A	70.35	69.35	57.35									
YEAR AGO												
N/A	67.50	66.00	59.00									

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