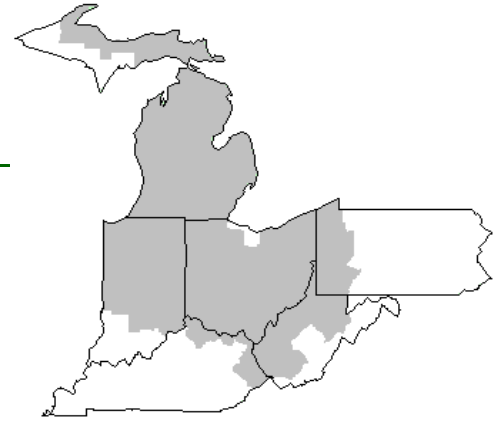
Mideast Market Administrator's Bulletin



Federal Order No. 33

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October 2009

Risk Management Tools Available to Dairy Farmers

As milk prices have fallen sharply in recent months, many dairy farmers are reviewing their current risk management practices and assessing practices or programs they may not already be using. Typically, milk producers cannot respond as quickly to changes in demand as producers in crop agricultural sectors, leaving them more vulnerable to loss of revenue. Additionally, changes in the dairy industry as well as dairy policy have led to greater price fluctuations and increased risk. The growth of bigger, more highly leveraged farms in the Western United States has increased the number of farms with larger-than-average debt ratios. Smaller dairy farmers who own their land and grow their own feed may be better equipped to weather price volatility than larger farms with higher debt levels and an increased reliance on purchased feed. Feed prices have fallen somewhat in recent months, but they are still well above historical averages. Starting in the late 1980s, dairy policy has moved towards a more market-based approach, and as support price levels have decreased, the volatility in farm-level milk prices has increased.

Successful dairy farming requires the use of risk management tools, recognizing the tradeoff between potential profit and risk. Risk management tools available to dairy farmers include public and private sector options. Within the public sector, the USDA offers the following risk management tools:

• The Livestock Gross Margin for Dairy Cattle Insurance Policy (LGM) provides protection against the loss of gross margin (market value of milk minus feed costs) on the milk produced from dairy cows. The program is available to producers in 36 States, and the States covered were home to approximately 68 percent of the dairy cows in 2007 (Ag Census). The LGM uses futures prices for corn, soybean meal, and milk to determine the expected gross margin and the actual gross market, covering both the input and output risk to producers.

• The Dairy Indemnity Program makes payments to dairy producers when a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides, nuclear radiation or fallout, or toxic substances and chemical residues other than pesticides.

• The Dairy Forward Pricing Program allows producers to voluntarily enter into forward price contracts with handlers for pooled milk used for Class II, III, and IV purposes. Under the program, handlers are not required to pay producers the minimum Federal order blend price, but rather a price negotiated between handlers and producers. Forward contracts reduce risk and also aid participants in obtaining new or continued financing.

• The Milk Income Loss Contract (MILC) Program provides monthly, direct, countercyclical style payments to producers when the Class I price in Boston falls below a variable trigger price. The trigger price may be adjusted monthly for variations in feed costs above $7.35/cwt of a 16-percent protein feed ration. For fiscal years 2009-2012, the MILC program is available to all producers, with annual production eligible for MILC payments capped at 2,985,000 pounds.

In the private sector, many agricultural producers use futures markets as a risk management tool. While the class prices of commodities sold on the futures market do not directly represent the prices that farmers see in their milk check each month, futures contracts can allow dairy farmers to hedge against risk in milk and feed price fluctuations. As a commodity user (grain) and a commodity supplier (milk), dairy farmers can use the futures market to manage risk on the price(s) of inputs as well as the output price.

Dairy futures include those for:

- Class III milk
- Class IV milk
- Cheese
- Butter
- NFDM
- Dry whey

Like the futures market, farmers can also forward contract milk or feed directly. Many larger farms that rely heavily on purchased feed do this to limit volatility of their feed costs. Dairy cooperatives often forward contract milk with their members.

Risk management tools are a key component for maintaining the economic viability of a farm. As a result of recent increased price fluctuations in the dairy sector, risk management tools are more relevant for consideration and use today than they were in the past.

For more information, see: USDA-Risk Management Agency; http://farm-risk-plans.usda.gov/index.aspx?action=riskman.home; USDA-AMS Dairy Programs; http://www.ams.usda.gov/dairy

September 2009 Pool Summary

Classification of Producer Milk

	Pounds	*Percent*
Class I	571,376,302	43.7
Class II	279,257,929	21.4
Class III	390,544,307	29.9
Class IV	65,060,174	5.0
Total	1,306,238,712	100.0

Producer Prices

Producer Price Differential	$ (0.04)	/cwt
Butterfat Price	1.2226	/ lb
Protein Price	2.4243	/ lb
Other Solids Price	0.1018	/ lb
Somatic Cell Adjustment Rate	0.00068	/ cwt
Statistical Uniform Price	12.07	/ cwt

ANNOUNCEMENT OF PRODUCER PRICES

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September 2009

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	POUNDS	BUTTERFAT	SKIM / PROTEIN	NONFAT SOLIDS	OTHER SOLIDS	PRICE	VALUE
Class I Skim Value			561,350,135			$ 8.74 / cwt	$ 49,062,001.80
Class I Butterfat		10,026,167				1.2846 / lb	12,879,614.16
Class I Location Differential	571,376,302						(282,028.72)
Class II SNF Value				23,811,437		0.7722 / lb	18,387,191.64
Class II Butterfat		16,244,163				1.2296 / lb	19,973,822.81
Class III Protein Value			11,908,428			2.4243 / lb	28,869,602.01
Class III Other Solids Value					22,110,522	0.1018 / lb	2,250,851.14
Class III Butterfat		14,930,658				1.2226 / lb	18,254,222.48
Class IV SNF Value				5,315,152		0.7906 / lb	4,202,159.21
Class IV Butterfat		6,349,448				1.2226 / lb	7,762,835.14
Somatic Cell Value II / III / IV							563,013.96
TOTAL PRODUCER MILK VALUE	1,306,238,712	47,550,436	39,784,081		74,184,577		$161,923,285.63
Overages					$ 20,026.15		
Beginning Inventory and Other Source Charges					$ 94,427.92		
TOTAL ADJUSTMENTS							$ 114,454.07
TOTAL HANDLER OBLIGATIONS							$ 162,037,739.70
Total Protein Value			39,784,081 lbs	@	$2.4243		$ (96,448,547.55)
Total Other Solids Value			74,184,577 lbs	@	0.1018		(7,551,989.95)
Butterfat Value			47,550,436 lbs	@	1.2226		(58,135,163.04)
Total Somatic Cell Values							(979,799.85)
TOTALS							$ (1,077,760.69)
Net Producer Location Adjustments							$ 612,733.28
1/2 Unobligated Balance Producer Settlement Fund							593,000.00
Total - Divided by Total Pounds			1,306,238,712 lbs		0.0097970		$ 127,972.59
Rate of Cash Reserve					(0.0497970)		(650,467.69)
PRODUCER PRICE DIFFERENTIAL *at Cuyahoga County, OH**			1,306,238,712		**$ (0.04) /cwt**		$ (522,495.10)

COMPONENT PRICES

	September 2009	September 2008
Butterfat Price	$1.2226 / lb	$1.8196 / lb
Protein Price	2.4243 / lb	3.2689 / lb
Other Solids Price	0.1018 / lb	0.0234 / lb
Somatic Cell Adjustment Rate	0.00068 / cwt	0.00089 / cwt
Nonfat Solids Price	0.7906 / lb	1.0455 / lb

COMPUTATION OF UNIFORM PRICE

	September 2009	September 2008
Class III Price - 3.5% BF	$ 12.11	$16.28
Producer Price Differential*	(0.04)	1.77
Statistical Uniform Price	$12.07	$18.05

CLASS PRICES

	September 2009	September 2008
Class I*	$12.93	$19.65
Class II	11.01	17.58
Class III	12.11	16.28
Class IV	11.15	15.45

* Subject to Location Adjustment.

CLASSIFICATION OF PRODUCER MILK

	September 2009 *Product lbs.*	September 2008 *Product lbs.*
Class I	571,376,302	566,415,573
Class II	279,257,929	245,866,410
Class III	390,544,307	387,514,507
Class IV	65,060,174	53,348,445
Total	1,306,238,712	1,253,144,935

ORDER 33 MARKET SUMMARY

The Producer Price Differential for the Mideast Marketing Area for September 2009 was $-0.04 and the Statistical Uniform Price was $12.07 for the month. The Statistical Uniform Price is $0.60 higher than last month, and is $5.98 lower than September 2008.

The Producer Butterfat Price of $1.2226 per pound decreased 2.65 cents from August and is down 59.70 cents from a year ago. The Protein Price of $2.4243 is up $0.3234 from last month and is down $0.8446 from September 2008. The Other Solids Price in September was $0.1018 per pound, an increase from last month's price of $0.0962 and an increase of 7.84 cents from last August. The Somatic Cell Adjustment rate for September was $0.00068.

September producer receipts of 1.31 billion pounds were 5.2 percent lower than August and 4.2 percent higher than September 2008 production of 1.25 billion pounds. Producer milk allocated to Class I accounted for 43.7 percent of the total producer milk in September 2009, more than the 40.5 percent in August and less than the 45.2 percent in September 2008. A total of 7,108 producers were pooled on the Mideast Order compared to 7,191 producers pooled in September 2008.

The market average content of producer milk was as follows: Butterfat 3.64 %; Protein 3.05 %; Other Solids 5.68 % and Nonfat Solids 8.73 %.

August Milk Production Down 0.2 Percent

Milk production in the 23 major States during August totaled 14.6 billion pounds, down 0.2 percent from August 2008. July revised production, at 14.8 billion pounds, was down slightly from July 2008. The July revision represented a decrease of 13 million pounds or 0.1percent from last months preliminary production estimate.

Production per cow in the 23 major States averaged 1,743 pounds for August, 25 pounds above August 2008. The number of milk cows on farms in the 23 major States was 8.37million head, 143,000 head less than August 2008, and 28,000 head less than July 2009.

The Mideast Marketing Area has four states represented in the 23 major states used above. They are Indiana, Michigan, Ohio, and Pennsylvania. Milk production in these Mideast states during August totaled 2.3 billion pounds, up 59 million pounds or 2.7 percent from August 2008.

Production per cow in the Mideast states averaged 1,693 pounds for August, 49 pounds above August 2008. The number of cows on farms in the Mideast states was 1.3 million head, 1,000 head more than August 2008.

The Dairy Outlook

The July *Milk Production* report showed U.S. milk production estimates virtually unchanged from July a year ago, despite 145,000 fewer cows in the national herd. For the year to date, milk production has risen every month compared with the corresponding month a year ago, while the dairy herd has shown a decline for every month in 2009 since March. Continued low prices for milk and dairy products have not brought a decline in production, which would bring milk supplies into line with demand. Lower prices for feed ingredients, especially corn and alfalfa hay, have provided an incentive for producers to feed for milk production despite culling.

For the second quarter of 2009, commercial disappearance of cheese was ahead of the second quarter of 2008, while domestic commercial use of butter, nonfat dry milk (NDM) and whey trailed year-earlier levels. Stocks on a milk equivalent basis remain ample. For 2010, commercial disappearance on a fats basis will likely be virtually unchanged from 2009 totals. However, a decline in domestic commercial use from 201.9 to 200.1billion pounds is expected on a skims/solids basis. Recovery in prices is unlikely until 2010 when the decline in milk production, forecast for both this year and next, impact the market. Even then, the price rebound will be mild. Cheese prices are expected to average $1.235-1.255 this year, unchanged from last month’s projection. Prices for butter, NDM, and whey are expected to be $1.165-$1.205 per pound, 85-87 cents per pound, and 23.5-25.5 cents per pound, respectively. For 2010, cheese prices are forecast at $1.510-$1.610 per pound, butter at $1.420-$1.550 per pound, NDM at 93.5 cents to $1.005 per pound, and whey at 28-31 cents per pound.

The relative strength of the cheese market compared with the butter/powder market is reflected in projected milk prices. Class III prices are expected to be $10.65-$10.85 per cwt this year and $13.75-$14.75 per cwt next year. The Class IV price, based on the butter/powder price is forecast at $10.10-$10.40 per cwt in 2009 and $11.95-$13.05 per cwt in 2010. The all milk price is projected at $12.05-12.25 per cwt for the current year and $14.55-$15.55 per cwt next year.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-183, September 17, 2009, Economic Research Service, USDA. For more information, contact Roger Hoskin, (202) 694-5148.

Bulletin WebPage Edition
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Featured this month are:

- Producer Milk Classification
- Statistical Uniform Price
- Class and Component Prices
- Weighted Average NASS Prices

Weighted Averages - Butterfat, Protein, Other Solids, Somatic Cell Count by State

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		August 2009					August 2008				
			-----------Weighted Averages -----------					---------Weighted Averages ---------			
State	Number of Producers	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)	Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	1,851	588,257	3.52	2.96	5.70	223	540,982	3.52	2.95	5.71	256
Ohio	2,230	338,188	3.64	3.00	5.66	279	333,143	3.60	3.00	5.69	308
Indiana	1,144	148,349	3.61	2.97	5.70	288	135,863	3.58	2.96	5.67	327
New York	337	134,659	3.60	2.98	5.69	243	129,338	3.59	2.99	5.70	268
Pennsylvania	1,084	105,731	3.66	3.00	5.64	352	110,082	3.65	3.02	5.66	375
Wisconsin	321	48,999	3.57	2.94	5.76	262	60,700	3.57	2.94	5.74	300
West Virginia	65	5,017	3.73	3.08	5.62	371	5,393	3.72	3.12	5.66	417
Illinois	22	1,798	3.65	2.99	5.61	387	8,014	3.54	2.93	5.74	287
Other	103	7,185	3.57	3.01	5.67	276	5,583	3.62	3.01	5.71	319
Total/Average *	7,157	1,378,183	3.58	2.98	5.69	258	1,329,098	3.57	2.97	5.70	291

* Totals may not add due to rounding. Data provided on a one month delay basis and includes only milk from these states *pooled* on the Mideast order.

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FEDERAL ORDER DATA

September 2009

Marketing Area [1/]		Producer Milk Total (000)	Producer Milk Class I (000)	Class I Percent %	Producer Price Differential (per cwt.)	Statistical Uniform Price (per cwt.)
FO 1	Northeast - *(Boston)*	1,841,345	858,904	46.7	$0.82	$12.93
FO 5	Appalachian - *(Charlotte)*	469,727	343,044	73.0	[2/]	13.65
FO 6	Florida - *(Tampa)*	239,600	205,275	85.7	[2/]	15.58
FO 7	Southeast - *(Atlanta)*	543,362	397,084	73.1	[2/]	14.12
FO 30	Upper Midwest - *(Chicago)*	2,394,571	371,020	15.5	0.03	12.14
FO 32	Central - *(Kansas City)*	884,497	354,593	40.1	(0.21)	11.90
FO 33	**Mideast - *(Cleveland)***	**1,306,239**	**571,376**	**43.7**	**(0.04)**	**12.07**
FO 124	Pacific Northwest - *(Seattle)*	394,818	194,032	49.1	(0.22)	11.89
FO 126	Southwest - *(Dallas)*	844,431	363,869	43.1	0.91	13.02
FO 131	Arizona - *(Phoenix)*	284,196	120,439	42.4	[2/]	12.37

[1/] Names in parentheses are principal points of markets.

[2/] Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR OCTOBER 2009 ....$11.01 /cwt.

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Mideast Market Administrator's Bulletin

Supplement

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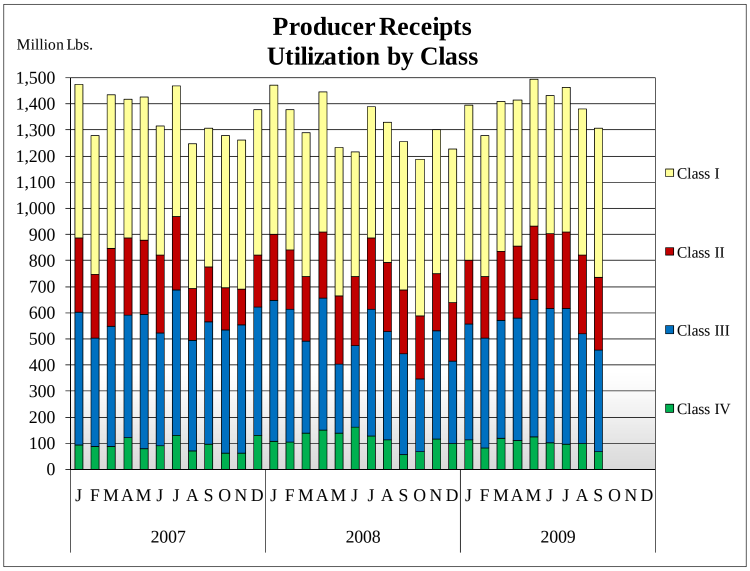
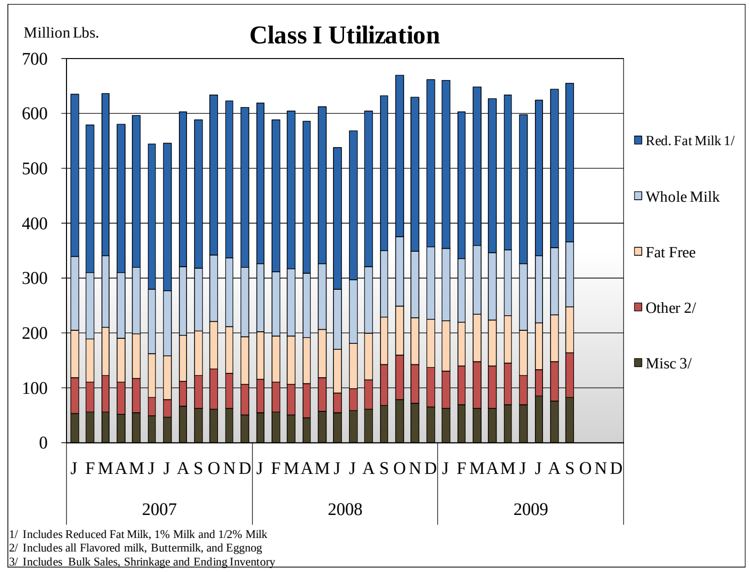
PRODUCER MILK CLASSIFICATION

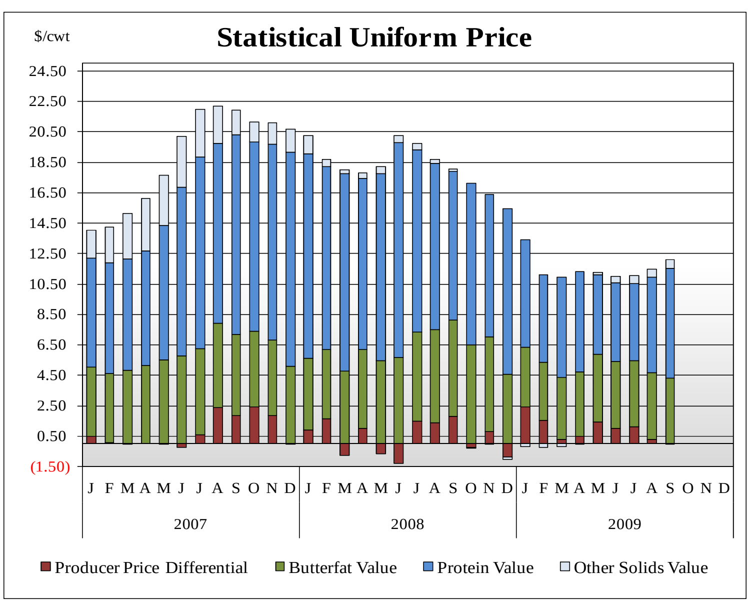


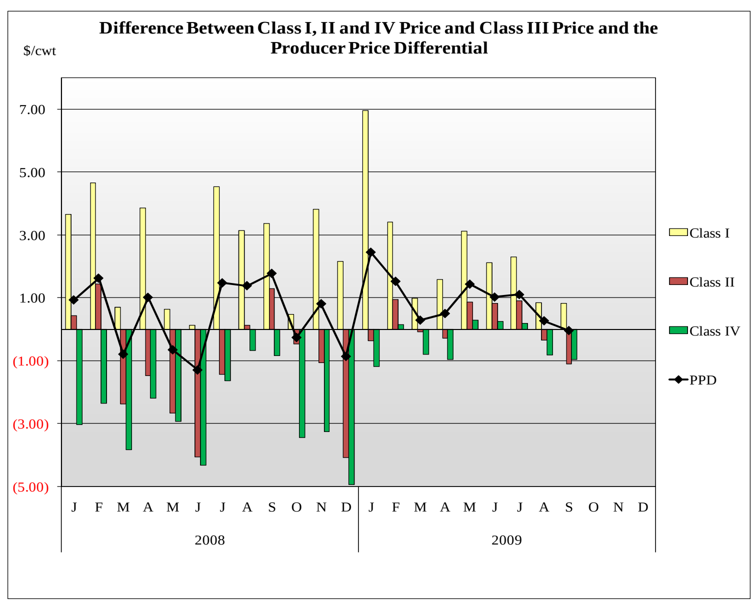


<u>Producer Receipts:</u> Producer receipts for the Mideast Order totaled 1.31 billion pounds in September 2009. The pounds allocated to Class I represented 43.7 percent of the total pounds. These totals represent a 53 million pound increase in producer milk, and a 1.5 percent decrease in Class I utilization from June 2008.

<u>Class I Pounds:</u> Class I utilization for the Mideast Order totaled 571 million pounds in September 2009. Finished products include 118 million pounds used for whole milk, 290 million pounds of reduced fat and low fat milk, and 84 million pounds of fat free (skim) milk.

STATISTICAL UNIFORM PRICE

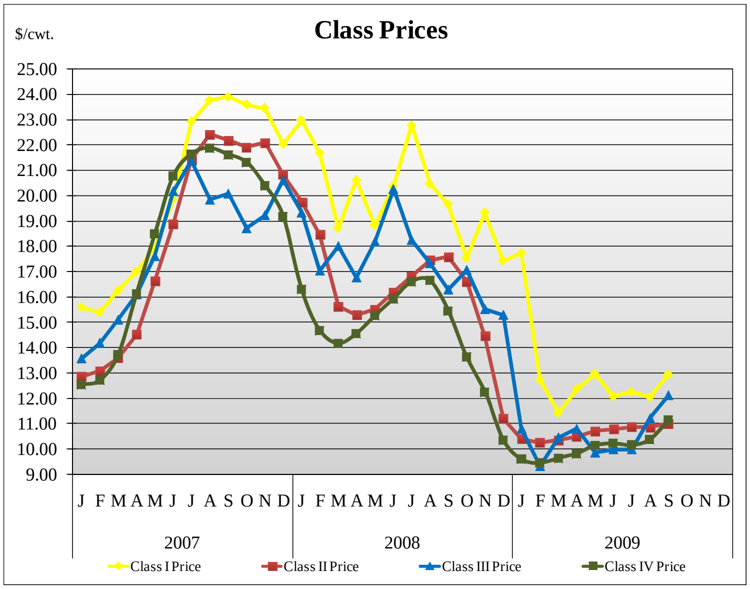


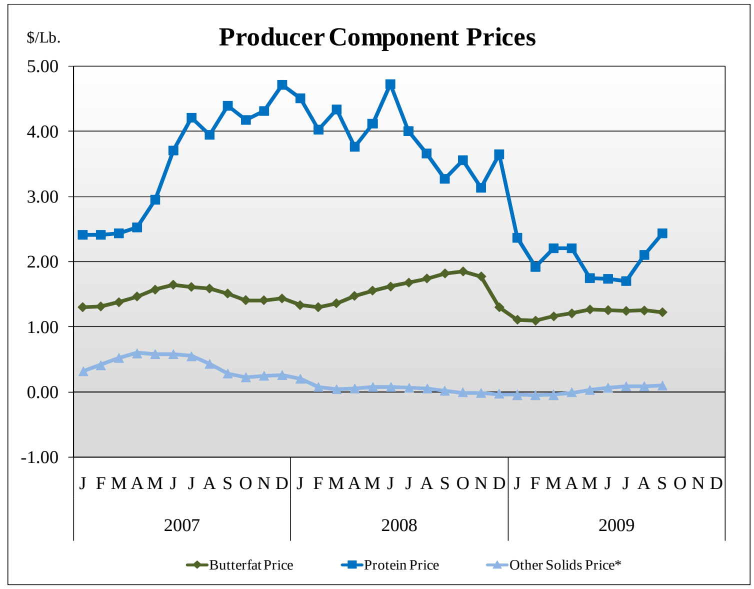


<u>Statistical Uniform Price:</u> The Mideast Federal Order Statistical Uniform Price (SUP) at Cuyahoga County, OH was $12.07 per cwt for September 2009. The September 2009 SUP was $0.60 per cwt higher than the August 2009 SUP. The September 2009 SUP is 33 percent lower than the September 2008 SUP.

This graph details the relationship between the class prices and the producer price differential. Each bar represents the difference between the Class I, II or IV price relative to the Class III price. Note that negative PPDs traditionally occur when multiple Class prices fall significantly below the Class III price.

CLASS AND COMPONENT PRICES





WEIGHTED AVERAGE NASS PRICES