

CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — TUESDAY, MAY 16, 2017 — except where noted



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BASIS? The Chicago Mercantile Exchange (CME) defines basis as “the local cash market price minus the price of the nearby futures contract.” Basis relates the CME price to the local price of any commodity (corn, soy bean meal, milk etc.) so you can estimate your upcoming local price with futures markets.

The blue lines on the graph represent the basis calculated as the difference between the eastern and western Pennsylvania mailbox milk price and the closing Class III price for that month. The yellow bars denote the Pennsylvania corn basis computed using the monthly NASS reported average corn selling price and the closing CME corn price for that month.

The basis for all commodities fluctuate up and down as the local supply meets, exceeds, or falls short of the local demand. The graph shows that basis can be positive or negative. Today’s corn market provides a good example of why and how basis affects the market price.

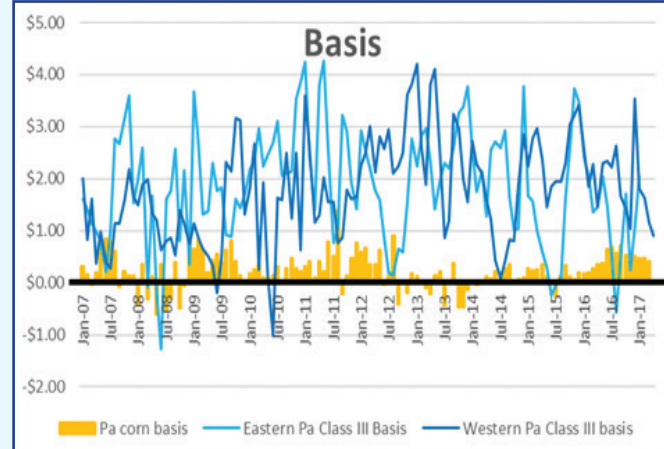
The graph tells us that the “average” corn basis in the Commonwealth is around +\$0.40 per bushel above the current CME corn price. The reality is that in Lebanon County, where there is a strong demand for corn, and yields were below average last fall, the corn basis today is +\$0.75. In Lawrence County, where corn yields were excellent last fall, the basis is -\$0.05.

Basis on milk very closely follows the Producer Price Differential (PPD) that is reported on the milk check. It will include quality and component premiums, so neighboring farms may have very different values. During the “spring flush” in 2012, 2014, 2015, and 2016 the basis fell to near or below \$0.00 per hundredweight of milk. The drop in PPD’s is aggravated by the extra costs to find a home for milk during these flush periods, dropping

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.

the basis even more. Over the past two years these costs have pushed the average basis down almost \$1.00 from the previous five-year average.

Join us for the next Protecting Your Profits conference call at 12:00 noon on May 24 for a fifteen-minute discussion on today’s market fundamentals and opportunities. Call 717-346-0849 to register.



CME DAILY FUTURES & OPTIONS TRADING — MAY 16, 2017 AT THE CLOSE

	MAY-17	JUN-17	JUL-17	AUG-17	SEP-17	OCT-17	NOV-17	DEC-17	JAN-18	FEB-18	MAR-18	APR-18	TREND
CLASS III MILK FUTURES (\$/CWT)													
	15.63	16.48	16.98	17.40	17.51	17.34	17.10	16.85	16.65	16.60	16.54	16.48	↑↑
	15.52	15.87	16.30	16.69	16.97	16.92	16.73	16.55	16.40	16.40	16.40	16.29	
----- WEEK AGO -----													
	17.71 01/17	17.86 01/17	17.93 01/17	17.93 01/17	17.97 12/16	17.85 12/16	17.65 01/17	17.50 02/17	17.03 02/17	16.90 02/17	16.96 02/17	16.96 02/17	NC
	14.79 03/16	14.90 03/16	15.12 03/16	15.16 09/15	15.06 09/15	15.20 11/15	15.30 03/16	15.26 03/16	15.45 05/16	15.70 03/16	15.68 03/16	15.70 03/16	
----- HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT AND MONTH/YEAR IT OCCURRED -----													
MILK BASIS (\$/CWT) — PA BASIS & *5-YEAR AVERAGE OF PA/NY/VT/OH — YOUR INDIVIDUAL BASIS WILL VARY													
	PA 3.33	2.48	2.78	2.46	3.24	2.82	3.41	3.46	4.33	3.66	3.17	3.29	
	*AVG 2.89	2.11	2.29	2.10	2.75	2.54	3.04	2.95	3.83	3.34	2.59	2.99	
EXPECTED GROSS MARGINS* PER CWT. (at 0.00 deductible) * = using the new Farm Bill “whole-herd” MPP feed ration values calculated based on futures prices for Class III milk, soybeans and corn projected on May 11, 12 and 13, 2017													
	N/A	N/A	8.57	8.86	9.00	8.84	8.60	8.35	8.09	8.03	7.98	7.87	↑↑
5-YEAR AVERAGE LGM ACTUAL GROSS MARGINS PER CWT. (at 0.00 deductible) using the new Farm Bill “whole-herd” MPP feed ration values for comparison based on historical futures contract close-out prices on Class III milk, soybeans and corn for these respective months.													
	5.72	4.94	4.15	5.26	5.62	6.52	6.85	6.85	5.99	6.65	6.33	6.06	
5-YEAR AVERAGE MPP ACTUAL GROSS MARGINS PER CWT. using the new Farm Bill “whole-herd” MPP feed ration values for comparison based on USDA-announced All-Milk price and USDA-reported corn and alfalfa hay price and Illinois-reported soybeans price. MPP Coverage can be purchased to protect margins up to \$8/cwt.													
	6.54	8.04	5.64	5.70	6.40	7.44	8.59	9.04	8.50	8.37	8.74	8.34	
CLASS III MILK (\$/CWT) OPTIONS — PUTS — Daily Strike Price / Premium (per dailydairyreport.com)													
	15.50 0.01	16.25 0.18	16.75 0.42	17.25 0.56	17.50 0.73	17.25 0.75	17.00 0.78	16.75 0.83	16.50 0.70	16.50 0.77	16.50 0.82	16.25 0.78	↑↑

TREND	JUL-17	SEP-17	DEC-17	MAR-18	Example Daily Strike Price / Premium	JUL-17	AUG-17	SEP-17	DEC-17	TREND			
MIXED	CORN (\$/BU) OPTIONS — CALLS					SOYMEAL (\$/TON) OPTIONS — CALLS				mixed			
	2.95 0.627	3.15 0.427	3.25 0.325	3.20 0.804	310	09.50	310 13.75	310 17.15	280 40.70				
	3.20 0.377	3.45 0.127	3.40 0.177	3.90 0.344	330	02.60	345 03.55	350 05.25	300 26.75				
	3.40 0.177	3.55 0.320	3.60 0.050	4.10 0.267	350	00.95	370 01.65	370 03.15	340 10.70				
	3.65 0.001	3.60 0.050	3.80 0.010	4.30 0.206	380	00.30	400 0.065	390 02.00	400 03.20				
CORN FUTURES (\$/BU)													
	JUL-17	SEP-17	DEC-17	MAR-18	MAY-18	JUL-18	SEP-18	DEC-18	MAR-19	JUL-19	SEP-19	DEC-19	TREND
	3.715	3.792	3.890	3.985	4.045	4.097	4.047	4.062	4.130	4.172	4.215	4.150	↑↑
	3.665	3.745	3.8500	3.945	4.010	4.067	4.002	4.015	4.082	4.125	4.165	4.130	
SOYMEAL FUTURES (\$/TON)													
	JUL-17	AUG-17	SEP-17	OCT-17	DEC-17	JAN-18	MAR-18	MAY-18	JUL-18	AUG-18	SEP-18	TREND	
	317.0	317.6	318.0	317.0	318.1	318.4	318.4	318.8	320.5	320.0	318.9	317.3 mostly ↑↑	
	318.5	318.9	318.9	317.5	318.6	318.3	318.3	318.2	319.6	318.7	317.3	317.2	

*NEW IOFC = Income Over Feed Cost	*MILK MARGIN — LATEST PSU VALUES — *APR. 2017	CME DAIRY CASH-SETTLED FUTURES (\$/LB)	SPOT CASH	TREND
	FEED COST (\$/CWT MILK)	MAY	05/16/17	
	IOFC (\$/COW @ 65 lbs milk)	JUN	05/16/17	
	PA MILK MARGIN (\$/CWT MILK)	JUL	05/16/17	
	*APRIL	AUG	05/16/17	
	*PREV MO	SEP	05/16/17	
	YRAGO	OCT	05/16/17	
		NOV	05/16/17	
		DEC	05/16/17	
		JAN	05/16/17	
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