

Adams Advanced Nutrition, Inc.

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Contracting Milk Prices ~ A Few Thoughts!

We are looking at \$20 milk at the moment; however, a fact of "life" is that milk prices fluctuate monthly. This is the way it is, and it will probably continue in the future. The result of constant change, as it relates to milk prices, has a

definite impact on how you do business, your cash flow, and your overall profitability. It also impacts what (and how) you feed your livestock. Feed prices also fluctuate, as do all commodities we utilize. Is there a way to try and stabilize your milk check? How can you work toward some form of stabilized income and reduce the constant and erratic variability of milk prices?

Contracting milk prices has become an increasingly popular way to try and lock-in milk prices. However, this can often present difficult and frustrating situations. Many of the concerns can be addressed by getting the facts and carefully weighing the pros and cons... the potentials, challenges, problems and pitfalls. Getting all the facts and devising a strategy to market your milk at a more consistent price can help you avoid making a bigger mistake or reacting emotionally and at random.

Pricing (or contracting) milk requires patience in moving ahead, discipline in studying and reviewing all available data, developing and defining a method, adopting an approach and system that works for you. The options are many and varied. We present just a few for your consideration. Once committed, you need to understand the obligations you have undertaken and know what you are getting into before it happens! It could be the best thing you ever did. It's all about taking the responsibility when it comes to income potential and profitability.

There are numerous advantages and concerns to keep in mind as you review the facts and consider contracting milk prices in the future.

- ❑ Most sources do not recommend contracting in the cash market or selling futures below a breakeven cost.
- ❑ When the market does not offer a breakeven milk price, consider the purchasing of Class III milk puts or enter into a minimum price contract.
- ❑ Once you make a commitment and contract a milk price (future), this is looked upon as final. It is not treated lightly and can offer you little or no escape.
- ❑ Contracting your milk price can help to reduce your risk in a very volatile milk market.
- ❑ The 1999 federal farm bill provides a floor price for dairy products. Unfortunately, this does not cover the cost of producing milk for many producers.
- ❑ Contracting milk gives dairy producers the choice of working directly with a brokerage firm utilizing futures market prices with a certain set of costs and margin requirements per contract.

- ❑ There is always the potential of risk with any program. A successful venture into contracting milk prices involves getting all the facts... asking the right questions... making an informed decision... and keeping on top of developments on a regular basis.

Before you enter into any milk contract or forward pricing you need to: a) know your production costs; b) develop a marketing plan for your dairy, stating profitability goals and strategies; c) understand all aspects of the contract, so you make an informed decision; and d) act responsibly once you have moved in this direction. There are numerous ways to approach contracting milk prices. Here are a few considerations. Take time to research and study these and see which one(s) are applicable to your farm.

1. **Fundamental selling approach** - focuses on the fundamentals of the milk market (factors that affect the balance of supply and demand).
2. **Seasonal selling approach** - allows for marketing and pricing opportunities based on expected milk production. A contacted price with this opportunity can be captured with milk futures contracts or forward price contracts with your processor.
3. **Cost of production plus margin of return** - is an approach that requires complete definition of production costs plus an agreed-upon margin of return. With this, you do have a managed price risk. Get the facts and do your homework before rushing into this possibility.
4. **Historical price range driven strategy** - focuses on the historical price range for USDA Class III milk price announcements over the past 5, 10 or 15 years.
5. **Technical signal driven approach** - you need to consider the daily CME block cheese cash price chart and apply a simple trend analysis to these prices to understand and conduct a technical price analysis in order to make an advised decision.
6. **Futures-based contracting** - provides an assortment of possibilities such as individual month contracts, 12-month contracts, selective contracts, minimum price contracts, "put options", etc.
7. **Cheese-based contracts** - providing a range of options that can make a difference!
8. **Standard fixed price contract** - choosing any month currently trading on the CME and establishing a fixed price for that month.
9. **Standard minimum price contract** - choose any month(s) currently trading on the CME to establish a minimum price (floor price) for that month(s) by paying a premium.

There are many options. I can help you check out available resources and examine all the possibilities. Be informed and stay informed - it can make a difference!

Interested in discussing topics in this newsletter, or want to do a better job feeding and managing your cows? Call me! My goal is to help you. That's Renaissance's commitment!

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RENAISSANCE... for RESULTS!



When it comes to heat... don't forget the calves!

As summer temperatures rise, heat stress can negatively impact calf performance, causing rapid dehydration and reduced immune system function. Researchers have determined that heat-stressed calves often have reduced circulating immunoglobulin concentrations and increased stress hormone concentrations. Elevated body temperatures can result in very sick calves with reduced growth rates, lower feed intakes, and higher maintenance energy requirements. When ambient temperatures exceed 80°F, calves must burn more energy in order to dissipate heat from the body by sweating and increasing respiratory rate. In this case, less of the nutrient consumed is devoted to growth and average daily gains suffer. Efforts should be made to identify and avoid heat stress in calves. Increased respiratory rates, open mouth breathing, decreased appetite, and a reluctance to move are symptoms that your calves may be suffering from heat stress. This summer, consider the following tips to assure proper calf health and growth is maintained: reduce sun exposure; improve air flow in calf-housing areas; use sand bedding, which does not insulate like straw or hay; **provide fresh, clean water free-choice**; and avoid additional, unnecessary stressful situations like moving and vaccinating during times of heat and humidity! *(edited from an article by Dr. Andrew Holloway, 2006)*



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July 2007...

*don't forget the calves this summer!
contacting milk prices ~ is this an option?*

Check it out.