



**First Capitol Ag**  
America's Hedge Broker



Dairy Hedge Update—June 2011

## Milk Price Up-trends Bring Producer Opportunity and Risk

The study of commodity price charts reveals reoccurring patterns of price behavior. The most basic price pattern is the **“Up Trend”**. The rhythmic accumulation of higher price highs and higher price lows over time results in an easily identified commodity **price uptrend**. This graphic display of higher and higher commodity prices is commonly coupled with **“Bullish”** market commentary that rationalizes each new level of price increase. If the uptrend continues over an extended period of time and moves toward historical price levels the expectations for trend extension often far out weigh the expectations for the trend to fail and reverse. **The counter intuitive reality is this: the better the uptrend the stronger the case for the trend to fail.**

The producer must be motivated by the fact that no uptrend lasts forever and act on the opportunities that are offered by a mature uptrend. The **most basic approach** to managing opportunity and risk during rising prices is to buy put options and roll put options up if the trend extends itself.

As portrayed in the charts below, long term historical price achieving uptrends came and failed in the Cattle and Hog markets. Simultaneously, these up trending markets presented increased price opportunity as well as risk to the producer. Livestock producers who ignored this reality have found themselves **realizing the risk and missing the opportunity**. So what do the Hog and Cattle market **“trend blow outs”** have to do with **dairy** producers? The October 2011 thru March 2012 Class III Milk up trending chart below is in the same condition now that hog and cattle charts were in late winter.

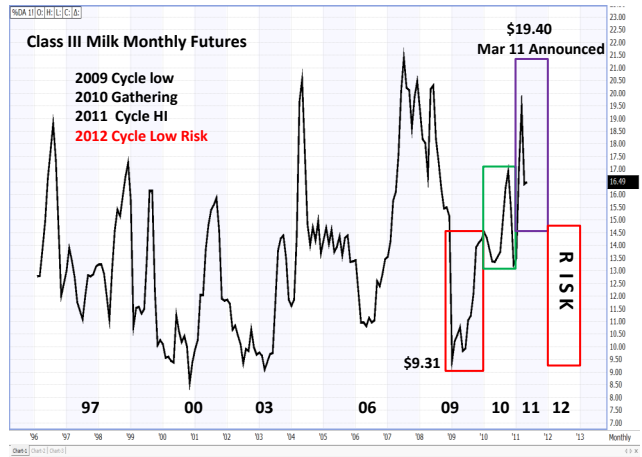
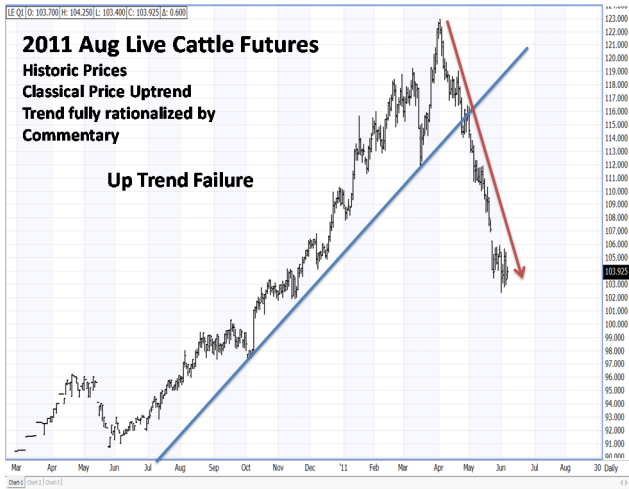
We do not know when, but we are assured that milk will in time have a trend failure as well. Additional risk is presented to the dairy producer as a result of where Milk price is relative to the three year price cycle. **2011 is the expected high year of the cycle and 2012 is the idealized cycle low year.**

### Take Action:

Producers are encouraged to acknowledge the risk associated with the uptrend and price cycle. Take action in a counter- intuitive way as market commentaries are bullish and the trend continues. Pick your strategy; get at least a put to cover the risk of your un-priced expected Oct 2011 thru March 2012 production.

- **October 2011 thru March 2012 \$15.00 Put at 40 cents per month.**
- **Purchase October 2011 thru March 2012 \$16.50/ \$19.50 Min/Max for 38 cents per month.**

Managing Milk price in this manner is a “hedge” against adverse price risk. We do not want the trend to fail or the cycle price low to unfold, rather we are candidly acknowledging the risk of lower prices in the Oct thru March 2012 time period.



Carl Babler      Chris Atten      Kim Voigts      Karen Voigts      Kevin Wagner

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