“Financial State of Dairying”

February 7, 2012

Today’s Discussion

- Macro Economics
- What is happening globally
- What is happening nationally
- 2012 Agricultural Outlook (Micro)
- 2012 Farm Bill
- Risks & Opportunities

Global Issues

- EU Debt *
- Lack of Appetite for Austerity
- World Government Instability *
- World Banks Capital Challenges
- Oil Prices *
- China
- Exports
European Central Banks

26 of 27 Countries Verbal Approval

Probability of Default

- Greece: 94.97%
- Portugal: 60.94%
- Argentina: 51.05%
- Venezuela: 49.90%
- Ireland: 48.63%
- Ukraine: 45.25%
- Italy: 34.67%
- U.S.: 3.42%
Acres per Person in the World

- 1964 - 0.766
- 2011 - 0.22
- 7 Billion to Feed Today
- 1.5 Billion go to bed hungry
- 9.1 Billion in 2050

Land Values?

Record in Iowa
74 Acres
$20,250
Dairy Producer Purchase
China has...

- 22% of the world’s population
- 7% of the world’s tillable land
- 3% of the world’s water

China’s Tainted Milk

- Melamine 4X
- Aflatoxin (food fungus) 2X legal level
- 4MM internet hits
### Dairy Exports

<table>
<thead>
<tr>
<th>Month</th>
<th>Exports</th>
<th>Imports</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul</td>
<td>$412</td>
<td>$254</td>
<td>$158</td>
</tr>
<tr>
<td>Aug</td>
<td>433</td>
<td>243</td>
<td>190</td>
</tr>
<tr>
<td>Sep</td>
<td>419</td>
<td>208</td>
<td>211</td>
</tr>
<tr>
<td>Oct</td>
<td>411</td>
<td>249</td>
<td>162</td>
</tr>
<tr>
<td>Nov</td>
<td>438</td>
<td>309</td>
<td>129</td>
</tr>
<tr>
<td>YTD</td>
<td>4,450</td>
<td>2,661</td>
<td>1,789</td>
</tr>
</tbody>
</table>

### Global Dairy Trade - Trade Weighted Index

![Graph showing global dairy trade trends from 2009 to 2012](image)
Who Makes the Most milk?

Impact of Whey Price on Class III

<table>
<thead>
<tr>
<th>Whey Price</th>
<th>Class III</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.66</td>
<td>$16.40</td>
</tr>
<tr>
<td>0.40</td>
<td>$14.90</td>
</tr>
<tr>
<td>0.26</td>
<td>$  1.50</td>
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</table>

1 cents : 5.77 cents ratio
Domestic Issues

- Government Spending
- Business Spending
- Consumer Spending
- Housing
- Slow Growth GDP
- Weather
The Feds Thinking?

- Aug 10, 2010
- Buying U.S. Treasuries
- Buying Long-term Mortgages
- Sept 21, 2010 “QE 1 (6mo to 2yr Tr)”
- Nov 3, 2010 “QE-2” (6mo to 30 yr Tr)
- August 9, 2011 “FF 0.25% June 2013”
- January 25, 2012  FF 0.25% end of 2014

US Dollar Index

US Government

- Regulation
- Polarization
- Financial Paralysis
- Super Committee Failure
- November Election
- The Need for Tough Financial Decisions
- ..But not the Appetite
2012 Farm Bill

- Hostage to the budget
- $145B
- 80% Social and Food Assistance
- Cyclical Payments
- Dairy Security Act

The Banker’s Dilemma

- Flush with Money
- Frank/Dodd Regulatory Bill
- Regulators Tough
- Higher Standards Demanded
- Record Low Interest Rates (A&L)

2012 Outlook

- Corn $6.50
- Soybeans $12.00
Beef

- 500-600 $147
- 700-800 $139
- Fed Steers $116
### Milk

- **Price:** $18.00 All Milk Price

### Herd Size

<table>
<thead>
<tr>
<th>Size</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>3.37cwt</td>
<td>0.71</td>
</tr>
<tr>
<td>&gt;1,500</td>
<td>3.60</td>
<td>1.04</td>
</tr>
<tr>
<td>&lt;1,500</td>
<td>2.84</td>
<td>&lt;0.22</td>
</tr>
<tr>
<td>Top 30%</td>
<td>4.24</td>
<td>1.98</td>
</tr>
</tbody>
</table>

*100 cows @ 24,000 x 2.84 = $68,160*

*100 cows @ 24,000 x 4.24 = $101,760*
### "I want to switch to grain!"

- **Corn**
  - 150 bu @ $6 = $900
  - $550 + $150 = $700
  - Net/acre $200
  - 100 acres $20,000
  - 500 acres $100,000
  - 1,000 acres $200,000

- **Soybeans**
  - 50 bu @ $12 = $600
  - $300 + $150 = $450
  - Net/acre $150
  - 100 acres $15,000
  - 500 acres $75,000
  - 1,000 acres $150,000

### Milking Cows

- 24,000 milk @ $18.00 = $4,320
- 30% cull rate $800/3 = 266
- 50% bull calves $100/2 = 50
- Gross $4,636
- $4,636 @ 85% Expense $3,941
- Net/Cow $695

### Acres to Feed a Cow

- 1.50 Forage
- 0.75 Grain
- 0.75 Youngstock
- 3.00 Total Acres
- $695 Net / Cow / 3 Acres = $231/Acre
Summary

- Soybeans Net/Acre = $150
- Corn Net/Acre = $200
- Milk Cow Net/Acre = $231
Are They Positioned to Capture the Opportunities?

Maximizing...

- Protein?
- Butter Fat?
- SCC?