

Understanding CME cheese trade to farm milk price connection

Small exchange has big impact on prices – CME Cheese

- **Jon Davis, general manager of Jerome Cheese (Idaho) says: “Producers should understand that CME is a pretty small community of buyers. There are only about 10 core buyers. Just because all of (the cheese) doesn’t physically go through the Merc (CME) doesn’t mean it doesn’t matter. 99.9% of the cheese trade is priced off this (CME) MARKET.”**
- **Phil Plourde, Blimling and Associates says: The CME price is used directly to calculate the price paid for milk in unregulated areas with no Federal Order—like Idaho. But, even though the CME price is not technically used in Federal Order pricing, “AS A PRACTICAL MATTER, THE PRICE IS STILL GOING TO BE THE CME PRICE because of how this is later captured on the NASS Survey.”**

Read on for summary of how it works:

- CME cheese, butter, NFDM trade used to establish values for buying and selling that is later recorded by NASS and then used in Federal Order price formulas for determining raw milk price paid to farmers.
- CME Cheese market is the most influential on farm milk prices.
- CME Cheese market is a CASH MARKET.
- There are no cheese “futures,” but there are Class III (cheese milk) futures.
- There are a handful of brokers and they act independently for the companies (buyers/sellers) they represent.
- They buy/sell for their clients on the CME cash cheese market.
- Trading is done up to a MAXIMUM of 10 minutes per day with anywhere from zero trades to a few trades occurring in that 10 minute “exchange call” each day.
- CME CASH MARKET VALUES **are established even if no trades take place** at a bid or offered price. A simple offer to sell or a bid to buy can move price higher or lower. No trading need take place.
- Few buyers and sellers and they can act as both.
- Economists refer to CME as “sales opinion” that is challenged by participants bidding or offering product to challenge that opinion.

- **Comparison** – NASS Survey of actual cheese, butter, NDFM and whey sales covers 1100 companies (over \$750,000 annual sales) trading in the real market and they take their price valuations from the CME where 25 brokers represent 35 companies including cooperatives, cheese companies, import-export companies, food services and others.
- Half of those clients are said to be “on the 10 minute trading call.”
- Only 10 to 15 actively participate in the “exchange” during the “10 minute daily CME trading call.”
- Of those, 5 to 7 are reported to be the very active traders on the call.
- Others on the 10-minute daily CME cheese trading call are said to be “listening” to follow the session and they then use that session to determine what they want to do with their ACTUAL cheese pricing, purchasing or hedging.
- This means the 10 minute daily call where 5 to 7 traders “act” by presenting offers or bids, but not necessarily “trades” is used by the 1100 companies to do their actual buying and selling which is “captured” a week or two later in the NASS survey, and then used later yet in the Federal Order pricing.

Sources:

Plourde writings

Davis interview

Capitol Press story by Carol Ryan Dumas who covered explanation of how CME Cheese Trade works **as presented by a CME broker—Peter Turk**—during Idaho Dairymen Association meeting in December 2009.