



Determining a Strike Price

for use when

Hedging, Buying Options, Etc.

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Work Sheet:	An Example Farm	Estimated for Your Farm This Year
8. Hundredweight Equivalents (CWT EQ) of Milk Produced Crucial Value <small>(Estimated from COP worksheet, line 8 and other information)</small>	11,500	_____
13. Total Interest Paid <small>(Estimated from COP worksheet, line 13 and other information)</small>	\$ 8,000	_____
14. Wages and Benefits Paid <small>(Estimated from COP worksheet, line 14 and other information)</small>	\$ 15,000	_____
17. Estimated Basic Cost per CWT EQ this year ¹ <small>(Estimated from COP worksheet, line 17 and other information)</small>	\$ 7.50	_____
17a. All Wages and Benefits Paid per CWT EQ ² <small>(Estimated by dividing line 14 divided by line 8)</small>	\$ 1.30	_____
FLD Additional Family Living Draw Required \$25,000 <small>(In addition to wages and benefits paid to family members.)</small>		_____
17b. Family Living Draw per CWT EQ <small>(Line FLD divided by line 8)</small>	\$ 2.17	_____
17c. Milk Price ³ needed to cover basic costs and labor <small>(On this worksheet, add lines 17, 17a, and 17b)</small>	\$ 10.97	_____
17d. Total Interest Paid per CWT EQ <small>(Line 13 divided by line 8)</small>	\$ 0.70	_____
17e. Milk Price ³ needed to cover 17c plus Interest <small>(On this worksheet, add lines 17c, and 17d)</small>	\$ 11.67	_____
PP Principal Payment Obligations \$16,000 <small>(Scheduled principal payments on all debts.)</small>		_____
17f. Principal Payment Obligations per CWT EQ <small>(Line PP divided by line 8)</small>	\$ 1.39	_____
17g. Milk Price ³ needed to cover 17c plus all debt service <small>(On this worksheet, add lines 17e, and 17f)</small>	\$ 13.06	_____
CM Cash Margin Required (Desired) \$10,000 <small>(Cash reserve or monies to be used for down payments.)</small>		_____
17h. Cash Margin Required per CWT EQ <small>(Line CM divided by line 8)</small>	\$ 0.87	_____
17i. Milk Price ³ needed to cover all cash requirements <small>(On this worksheet, add lines 17g, and 17h)</small>	\$ 13.93	_____
23. Last year's Total Allocated Costs Plus unpaid labor & management <small>(Copy from COP worksheet, line 23)</small>	\$12.90	_____

The footnotes are on the back of this page.

Footnotes

- 1 The “Cost of Producing Milk per Hundredweight Equivalent” worksheet is normally used to determine what your cost of production was. On this worksheet you will be trying to determine what you **cash costs will be**. Therefore, your previous actual cost of production should be used only as a guide in estimating the future cost of production.

Example: You have calculated your Basic cost of production per hundredweight equivalent in 1998 as \$8.04. You know that purchased feed costs accounted for \$3.12 if this total and you have estimated your purchased feed costs in 1999 as \$2.62 per hundredweight equivalent. You might then reduce your basic costs by \$0.50, more or less, depending on your judgement of the changes that may occur in other expenses.

- 2 Estimate, usually you should not copy.
- 3 There are numerous pricing strategies. Some strategies use information from historical prices, some use market trends, others use cost of production and still others use combinations of all three sources of information. The pricing strategy you employ may or may not include using one or more of the cash cost of production levels developed here. The strategy you employ will be determined by your preferences close to the time a contract is signed.