



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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April Pool Price Calculation

The April 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$12.94 per hundredweight (cwt) for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Federal Marketing Order (CFMO). The SUP is calculated at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids. If reported at the average tests of producer pooled milk (3.89 percent butterfat, 3.19 percent protein, and 5.76 percent other solids), the April SUP would be \$13.97 per cwt. April's SUP at average component tests is lower than March's by \$3.35 per cwt, largely due to the COVID-19-induced price drops fully being reflected in Federal Order price calculations this month. April's Producer Price Differential (PPD) at Los Angeles County was $-\$.13$ per cwt, a decrease of 10 cents compared to the previous month's PPD of $-\$.23$.

Product Prices Effect

The dairy market downturn captured in March's steeply declining Chicago Mercantile Exchange (CME) spot prices was reflected in April's commodity prices in the National Dairy Product Sales Report (NDPSR), which determine Federal Order (FO) prices.

All NDPSR average monthly product prices fell this month: the butter price dropped 49 cents per pound; the average cheese price fell nearly 31 cents per pound; the nonfat dry milk price decreased 16 cents per pound; and the dry whey price experienced the smallest decline at less than a penny per pound. These changes led to across-the-board component price declines, all on a per pound basis: 60 cents for butterfat, 36 cents for protein, 16 cents for nonfat solids, and less than a penny for other solids.

Class prices all decreased from March to April. Class I declined 82 cents per cwt; Class II decreased \$2.88 per cwt; Class III fell \$3.18 per cwt; and Class IV dropped \$3.47 per cwt.

Overall lower prices and high utilization in the lowest priced Class IV led to a lower SUP in April; however, the spread between the highest priced Class I and Class III was wider than in March, leading to a less negative PPD.

Pool Summary

- A total of 910 producers were pooled under the Order with an average daily delivery per producer of 72,591 pounds, a decrease of 3.52 percent from March.
- Pooled milk receipts totaled 1.982 billion pounds, an increase of 0.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.2 percent of total pooled milk receipts, down 2.4 percentage points from March.
- The average butterfat test of producer receipts was 3.89 percent.
- The average true protein test of producer receipts was 3.19 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.2	420,395,878
Class II	4.5	89,760,381
Class III	1.3	26,269,447
Class IV	72.9	1,445,321,231
Total Pooled Milk		1,981,746,937

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	2.4822	1.9890
Butterfat Price	1.3218	2.5375
Other Solids Price	0.1793	0.1990

Class Price Factors

	2020	2019
	\$/cwt	
Class I	18.74	17.86
Class II	13.87	16.38
Class III	13.07	15.96
Class IV	11.40	15.72

Dairy Markets Beginning to Stabilize

While CME spot prices for dairy commodities fell an average of 25 percent from the beginning to the end of March, they declined only about one percent on average from the beginning to end of April, suggesting that dairy markets are beginning to stabilize. As mentioned in the last *Bulletin*, there is about a two-week lag in reporting and calculating the NDPSR survey prices, whereas CME trading prices are reported daily. The CME spot price declines seen in March were largely not reflected in the NDPSR prices until April. The CME spot price stabilization in April could be an indication of what is to come with NDPSR and FO class prices in May. See *Market Update* article on Page 3 for an updated price forecast. ❖

Fluid Milk Sales Volume Amid COVID-19

Among the impacts of the spread of COVID-19 and the shelter-in-place regulations that coincided with the virus' proliferation were an increased demand for Class I products in March. The accompanying table shows the monthly percentage change in daily average Class I sales volume by product for February, March, and April 2020. As evidenced in the table, the total Class I area sales volume of products sold in the California Federal Marketing Order (CFMO) increased more than 10 percent from February to March 2020, from just over 14 million pounds to more than 15.5 million pounds. This monthly change is notable amongst long-standing declines in Class I consumption and decreases in sales of every Class I product listed, except flavored milk and drink, from January 2020 to February 2020. March's impressive gains proved to be unsustainable as April's area sales volume shrunk by more than seven percent on a daily average basis.

As discussed in the March's *Bulletin*, "panic-buying" of fluid milk products in grocery stores was prevalent in the early weeks of March 2020. While fluid sales in most categories surged from February to March 2020, not all Class I products experienced gains on a daily average basis: flavored milk and drink both fell by more than eighteen percent; other Class I products – including buttermilk and eggnog – fell sharply; and fat-free sales volume declined more than 8 percent. Class I products that experienced particularly significant increases from February to March were whole milk (14.9 percent), reduced fat/2 percent (16.9 percent), low fat/1 percent (10.3 percent), and organic milk products (9.6 percent). Interestingly, the increase in sales of whole milk accounted for nearly half of the overall effect in fluid milk sales volume from February to March. This could be the result of increased demand for higher-fat milk products or processors shifting more solids into

strong fluid demand channels.

The effect of the "panic-buying" phenomena, however, was short-term and its impact was contained in March. The table depicts the decline in Class I sales volume experienced in every category from March to April 2020. Organic milk sales saw the smallest change, down less than one percent. Still, Class I sales in total declined more than 7 percent on a daily average basis as consumer purchases at retail outlets subsided and sales likely returned to more common levels

Percentage Change in Daily Average Sales of Select Class I Products in The California Federal Marketing Order*

	Percentage Change from Prior Month		
	February 2020	March 2020	April 2020
Whole Milk	-3.4%	14.9%	-6.9%
Reduced Fat (2%)	-4.6%	16.9%	-8.2%
Lowfat (1%)	-4.1%	10.3%	-1.9%
Fat Free	-1.8%	-8.5%	-12.2%
Flavored Milk and Drinks	3.9%	-18.6%	-23.9%
Organic Milk Products	-1.6%	9.6%	-0.6%
Other Products*	-4.6%	-23.5%	-3.5%
Total	-3.1%	10.5%	-7.3%

*Based on Handler reported data.

**Other products include buttermilk and eggnog

Although Class I sales in March were a bright spot in the face of declines in prices and critical demand channels, the data demonstrates that much of the "panic-buying" has tapered off and Class I sales have retreated accordingly. The dairy market outlook is continually evolving in the face of the coronavirus pandemic and changing policy; Class I sales will fluctuate accordingly. ❖

Farm Milk Dumped During April

April's pool numbers show that California dairy farmers and their marketing handlers made significant supply adjustments at the farm level to avoid dumping milk, when possible. While some dumping has occurred in the California Federal Milk Marketing Order (CFMO), dumped milk made up a small share of April's pool. Utilization in the category "minimum class price-other uses" was just under 16 million pounds in April, which includes plant dumps due to processing issues, packaged route returns, milk dumped as animal feed, and, under the current COVID-19 crisis, raw milk dumped at farms (roughly 85 percent of the total, as reported by handlers). While 16 million pounds may seem like a large number, it represents less than one percent of the CFMO's total April pool of two billion pounds.

What is not captured in CFMO statistics is the significant volume of California milk that handlers opted not to include in the pool, which likely was sold at discounted prices as handlers sought to find buyers and processing options for displaced milk. As noted in the last *Bulletin*, when dumped milk is included in the pool, the handler is only receives a credit for the difference between the month's lowest class price and Statistical Uniform Price (SUP), adjusted to the zone where the milk was dumped, and not the full value for the milk.

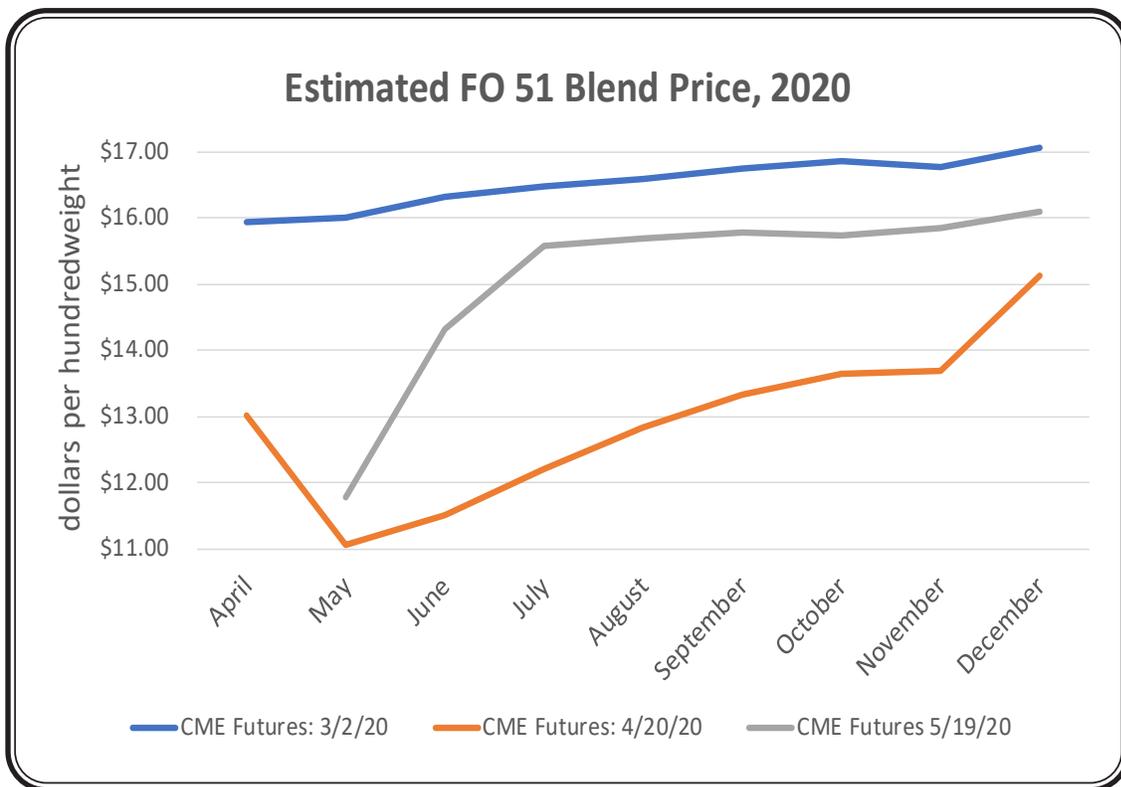
More information on this and other Federal Order flexibilities implemented during this challenging time can be found on the California Marketing Area website: www.cafmmo.com. ❖

Market Update: Optimism Returning to Dairy Markets

In the last *Bulletin*, Chicago Mercantile Exchange (CME) dairy futures prices painted a bleak picture of the market for the rest of the year. Although not used in Federal Order (FO) pricing, CME futures tend to track with the USDA National Dairy Product Sales Report (NDPSR), making them a viable option for estimating FO blend prices.

Shown in the accompanying figure, CME futures prices were used in lieu of NDP-SR commodity prices to estimate a blend price. CME futures as of April 20th exhibited little optimism towards a rebound of prices in the third and fourth quarters of 2020.

Now, more than halfway through May, CME futures show optimism returning to the dairy market. Using May 19th CME futures as a basis, the forecasted blend price



for 2020 is above April levels in every month, averaging \$15.10 per hundredweight (cwt), or a nearly 17 percent increase from last month's estimation. Notably, the increase in the forecasted blend price is most evident in June through October, predominantly driven by optimism in the Class III futures market.

Class IV futures have rebounded, though to a lesser extent than Class III, increasing nearly 15 percent on average from April 20th to May 19th. Despite this good news, uncertainty is still present and the current high production of storable milk powder and building up of stocks may dampen prices and hold down blend price estimates below levels seen pre-COVID-19 pandemic. ❖



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FIRST CLASS MAIL

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Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	410,264,920	\$12.29	\$50,421,558.67	
Butterfat	10,130,958	1.9649	19,906,319.37	
Less: Location Adjustment to Handlers			(837,556.69)	\$69,490,321.35
Class II— Butterfat	10,342,273	1.3288	13,742,812.37	
Nonfat Solids	7,394,753	1.0611	7,846,572.41	21,589,384.78
Class III— Butterfat	934,355	1.3218	1,235,030.43	
Protein	863,631	2.4822	2,143,704.89	
Other Solids	1,518,921	0.1793	272,342.55	3,651,077.87
Class IV— Butterfat	55,706,505	1.3218	73,632,858.31	
Nonfat Solids	129,435,130	0.7795	100,894,683.86	174,527,542.17
Total Classified Value			<i>Total value of milk in the pool</i> →	\$269,258,326.17
Add: Overage—All Classes				6,354.61
Inventory Reclassification—All Classes				(98,905.17)
Other Source Receipts	111,816			3,958.29
Total Pool Value				\$269,169,733.90
Less: Value of Producer Butterfat	77,114,091	1.3218	(101,929,405.48)	
Value of Producer Protein	63,276,187	2.4822	(157,064,151.40)	
Value of Producer Other Solids	114,211,077	0.1793	(20,478,046.11)	(279,471,602.99)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i> ↗	(\$10,301,869.09)
Add: Location Adjustment to Producers				7,729,810.98
One-half Unobligated Balance—Producer Settlement Fund				909,778.24
Less: Producer Settlement Fund—Reserve				(914,136.51)
Total Pool Milk & PPD Value	1,981,858,753			(\$2,576,416.38)
Producer Price Differential		\$(0.13)		
Statistical Uniform Price		\$12.94		

Value from which PPD per hundredweight is calculated

* Price at 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids.