



# The Market Administrator's

# BULLETIN

## CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

June 2020

Federal Order No. 51

To contact the California Marketing Area office:  
 Tel.: (916) 702-6455 — Fax: (833) 673-3751  
 Mailing Address: P.O. Box 6660, Folsom, CA 95763

e-mail address: [market.admin@cafmmo.com](mailto:market.admin@cafmmo.com) — website address: [www.cafmmo.com](http://www.cafmmo.com)

### June Pool Price Calculation

The June 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$13.13 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 (3.78 percent butterfat, 3.12 percent protein, and 5.78 percent other solids), the June SUP would be \$14.22 per cwt. Following the \$1.28 fall from April to May, June's SUP at average component tests is higher than May's by \$1.53 per cwt. June's Producer Price Differential (PPD) at Los Angeles County was -\$7.91 per cwt, a historic drop of \$7.72 from last month's PPD. See the article on the following pages for an explanation of this large negative PPD.

#### Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR), except the dry whey price, rose from May to June. The butter price increased nearly 40 cents per pound. The cheese price jumped roughly 92 cents per pound from May to June. The nonfat dry milk price rose just over 6 cents per pound. The only monthly average product price to decline, the dry whey price, decreased less than 2 cents per pound.

All component prices, except the other solids price, increased from May to June. The protein price more than doubled, climbing \$2.44 per pound. The butterfat price rose just over 48 cents per pound. The nonfat solids price increased just over 6 cents per pound. The other solids price fell less than 2 cents per pound.

Class II, III, and IV prices increased from May to June, while the lagged Class I price decreased, following a decline of all class prices the previous month. The Class I price fell \$1.53 per cwt. The Class II price increased 69 cents per cwt. The Class III price saw the biggest jump of \$8.90 per cwt. Finally, the Class IV price rose \$2.23 per cwt. ❖

### Pool Summary

- A total of 805 producers were pooled under the Order with an average daily delivery per producer of 70,853 pounds, a decrease of 1.6 percent from May.
- Pooled milk receipts totaled 1.711 billion pounds, a decrease of 7.03 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 24.4 percent of total pooled milk receipts, up 2 percentage points from April.
- The average butterfat test of producer receipts was 3.78 percent.
- The average true protein test of producer receipts was 3.12 percent.
- The average other solids test of producer receipts was 5.78 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	24.4	418,100,882
Class II	7.7	131,056,241
Class III	0.7	11,983,047
Class IV	67.2	1,149,950,158
Total Pooled Milk		1,711,090,328

#### Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	4.5349	2.0046
Butterfat Price	1.8591	2.6579
Other Solids Price	0.1696	0.1702

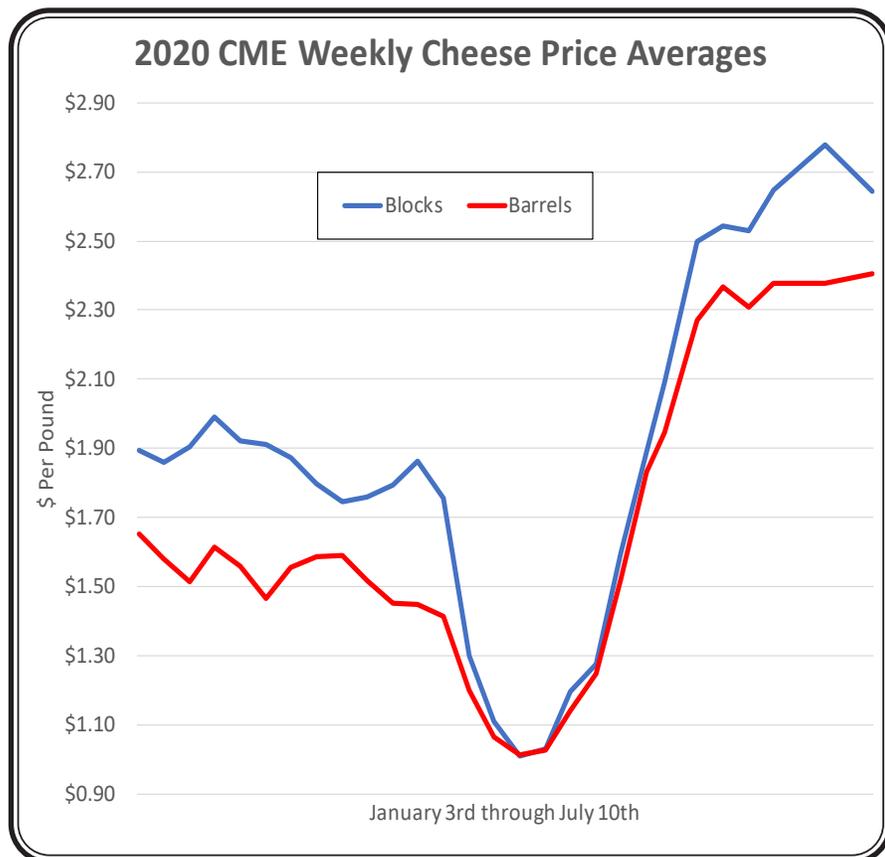
#### Class Price Factors

	2020	2019
	\$/cwt	
Class I	13.52	19.17
Class II	12.99	17.30
Class III	21.04	16.27
Class IV	12.90	16.83

## Record Price Increases A Factor Behind June Negative PPDs

In the seven Federal Milk Marketing Orders (FMMO) that pay producers based on milk components (butterfat, protein, and other solids) plus a producer price differential (PPD) value, the June PPD was significantly negative and in fact reached new lows in most of the FMMOs. This occurred when the June 2020 Class III price jumped a record \$8.90 per hundredweight from the May value.

Dairy commodity markets, which are the basis for all FMMO pricing, have registered extreme swings in price levels this year, the magnitude and rapidity not previously experienced. For example, block and barrel cheese prices were relatively strong at the beginning of this year, with block prices above \$1.90 per pound during most of January, and barrel prices above \$1.50 per pound. Blocks even surpassed the \$2.00



per pound mark on a couple of days in January. Prices remained relatively strong until early April when they plunged dramatically. Both block and barrel prices fell as low as \$1.00 per pound in April, before skyrocketing in May. Blocks surpassed the \$2.00 per pound threshold in late May and have continued to climb to record levels, approaching \$3.00 during the second week of July. The graph to the left details average weekly CME prices for barrel and block since the beginning of this year.

The magnitude of these rapid variations in dairy commodity markets results in unusual, or “non-typical”, FMMO class price alignment. Although unusual alignment of prices has occurred in the past, the magnitude of the current disparity between class prices is unprecedented. In June, the California Order Class III price (\$21.04) was \$7.52 higher than the Class I price (\$13.52), at the base zone. The spread between the Class III price and the Class II (\$12.99) and

Class IV (\$12.90) prices in June was \$8.05 and \$8.14, respectively, also unprecedented differences.

### **Producer Price Differential (PPD)**

The PPD is a per hundredweight payment and is but one portion of the total revenue paid to dairy farmers marketing milk in a Federal Order that pay producers based on milk components. The butterfat, protein, and other solids in producer milk comprise the other portions of producer revenue, and these are paid on a per pound basis.

The PPD represents, on a per hundredweight basis, total dollars accumulated by the market-wide pool minus the amount paid out to producers for priced components – protein, butterfat, and other solids. Market-wide pool revenue, or the *pool classified value*, is determined by the amount of milk utilized in each class, along with the price level for each class. Class I products include fluid bottled milk; Class II products are typically described as “soft” manufactured dairy products (such as ice cream, cottage cheese, dips, fluid cream products, etc.); cheeses make up the Class III category; and Class IV is comprised of butter and dry milk powders.

When the total value of pooled producer components exceeds the pool’s classified value, the result is a negative PPD since money out of the FMMO pool at producer component values plus the PPD must equal money in the pool’s classified value (pool revenue). In this measure, the calculation of a PPD can be thought of as an accounting method to “balance the books” of the Federal Order pool (see accompanying

illustrations to the right).

In the fat and skim pricing orders (four Federal milk orders where the largest utilization of milk is typically Class I fluid milk products), producers are paid based on the weighted average classified use value of pooled fat in the order and the weighted average classified use value of pooled skim in the order (class fat prices times the amount of fat utilized in each class and the class skim prices times the amount of skim utilized in each class). The total sum of the values paid to producers for pooled fat and pooled skim are equal to the classified use value of the pool and there is no PPD.

### **Factors Behind Negative PPD**

The monthly PPD value can be positive or negative depending on several factors particular to the individual order. In some orders, negative PPD values can occur on a regular basis due to the utilization of producer milk among the four classes and the differences between the class prices. The PPD payment is adjusted by location of the plant where a producer's milk is delivered, so within a specific marketing area the per hundredweight value of the PPD can range from positive at the base zone where the price is announced and turn negative in the more distant differential zones.

A significant short-term change in commodity prices used in the class and component price formulas can also have an impact on the PPD value, which is the case in June. In just over a one-month period, cheese prices recovered from among the lowest levels seen in recent years to the highest levels. Under the Federal Order system, Class I prices are announced in advanced of the effective month. The June 2020 Class I price was announced on May 20th using an average cheese price of \$1.1859 per pound from the first two weeks in May. The June 2020 Class III price was announced on July 1st based on an average cheese price of \$2.2152 per pound, calculated from four weeks in June when cheese market prices were rising. The nonfat dry milk market has not experienced the same increase as the cheese market, so Class II and IV prices have remained low as the Class II price is set off the Class IV price. These dynamics have resulted in the Class III component values, specifically the protein value, being very high relative to the other class values. Producers will notice the high value paid for protein in their June milk checks, when compared to what was paid out in their May milk checks. As explained above, the higher component prices result in more money paid out at the Class III component values than is available in the monthly Federal Order pool and creates a negative PPD.

Only milk delivered to pool distributing plants is required to be producer milk under the Federal Order system. Pool supply plants and deliveries to non-pool plants have specific qualifications that must be met to be eligible as producer milk. Those handlers typically have just Class II, Class III, or Class IV products and are not required to participate in the order's pool. Therefore, due to expected price relationships in some months, handlers may decide not to pool some of their milk receipts. In June 2020, handlers decided to not pool a significant volume of Class III milk due to its higher value. While that milk may not have been pooled, it is also important to note that the higher Class III value still exists in the marketplace.

It is expected that Class I, II, and IV prices will continue to be low relative to the Class III price for July 2020, resulting in a negative PPD value. It is likely that multiple component pricing orders will experience some level of negative PPD values until the Class III and IV skim prices converge. ❖

## Negative PPD?

**Pool Revenue**

- Class I Handler Value
- Class II Handler Value
- Class III Handler Value
- Class IV Handler Value



**Class III Component Values**

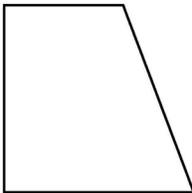
- Butterfat Value
- Protein Value
- Other Solids Value



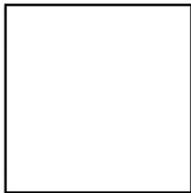


**NEGATIVE PRODUCER PRICE DIFFERENTIAL (PPD)**

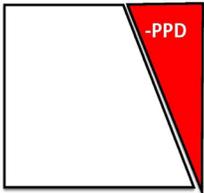
**Pool Revenue**  
*(Class I prices determined before the month)*



**Class III Component Values**  
*(determined after the month)*



**Payment Breakdown**



When the value of the pool is **less** than your Class III component value payments, the PPD is **negative**.

*This is an indication that Class III values have increased throughout the month.*



MARKET ADMINISTRATOR  
P.O. Box 6660  
Folsom, CA 95763

PRESORTED  
FIRST-CLASS MAIL  
U.S. Postage  
**PAID**  
Albany, NY  
Permit 1011

RETURN SERVICE REQUESTED

## FIRST CLASS MAIL

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotope, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, S.W., Stop 9410, Washington, DC 20250-9410 or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.

### 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	407,844,334	\$9.18	\$37,440,109.86	
Butterfat	10,256,548	1.3317	13,658,644.97	
Less: Location Adjustment to Handlers			(835,418.23)	\$50,263,336.60
Class II— Butterfat	13,684,637	1.8661	25,536,901.12	
Nonfat Solids	10,807,943	0.7433	8,033,544.04	33,570,445.16
Class III— Butterfat	1,994,148	1.8591	3,707,320.56	
Protein	324,364	4.5349	1,470,958.31	
Other Solids	598,395	0.1696	101,487.79	5,279,766.66
Class IV— Butterfat	38,659,439	1.8591	71,871,763.04	
Nonfat Solids	102,865,938	0.7354	75,647,610.80	147,519,373.84
<b>Total Classified Value</b>			<i>Total value of milk in the pool</i> →	<b>\$236,632,922.26</b>
Add: Overage—All Classes				3,871.28
Inventory Reclassification—All Classes				280,721.20
Other Source Receipts	6,912			(406.43)
<b>Total Pool Value</b>				<b>\$236,917,108.31</b>
Less: Value of Producer Butterfat	64,594,772	1.8591	(120,088,140.64)	
Value of Producer Protein	53,326,951	4.5349	(241,832,390.11)	
Value of Producer Other Solids	98,844,026	0.1696	(16,763,946.83)	(378,684,477.58)
<b>Total PPD Value Before Adjustments</b>			<i>Total Class III value of producer components</i> ↗	<b>(\$141,767,369.27)</b>
Add: Location Adjustment to Producers				6,440,029.70
One-half Unobligated Balance—Producer Settlement Fund				712,925.19
Less: Producer Settlement Fund—Reserve				(733,377.30)
<b>Total Pool Milk &amp; PPD Value</b>	1,711,097,240			<b>(\$135,347,791.68)</b>
Producer Price Differential		<b>\$(7.91)</b> ←		
Statistical Uniform Price		<b>\$13.13</b>		

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