



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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July Pool Price Calculation

The July 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$14.72 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 (3.75 percent butterfat, 3.11 percent protein, and 5.76 percent other solids), the July SUP would be \$15.87 per cwt, which is higher than that of June by \$1.65 per cwt. July's Producer Price Differential (PPD) at Los Angeles County was -\$9.82 per cwt, a continued decline from last month's PPD of -\$7.91 per cwt.

Product Prices Effect

All monthly average product prices in the National Dairy Product Sales Report (NDPSR), except the dry whey price, rose from June to July. The butter price increased about 8 cents per pound after last month's bigger jump of nearly 40 cents. After a 92-cent rise in the cheese price last month, the cheese price increased by a more modest 37 cents per pound from June to July. The nonfat dry milk increased just over 6 cents per pound, which is the same change experienced last month. Finally, the dry whey price continued to decline less than 2 cents per pound.

Like last month, all component prices, except the other solids price, increased from June to July. The protein price continued its upward trajectory, climbing \$1.09 per pound from June's already high price to a record-breaking \$5.6294 per pound. After last month's nearly 50-cent increase, the butterfat price rose just under 10 cents per pound from June to July. The nonfat solids price increased about 6 cents per pound. The other solids price declined about 2 cents per pound.

All class prices increased from June to July. Notably, the Class I price jumped \$5.14 per cwt, the largest month-to-month change in the Class I price since the inception of the CFMO. The Class II price increased 80 cents per cwt after increasing nearly 70 cents per cwt the prior month. The Class III price continued its historic climb, increasing \$3.50 per cwt from June to July, which followed a dramatic \$8.90 jump the month before. Finally, the Class IV price rose 86 cents per cwt from June to July after an over \$2 increase from May to June. ❖

Pool Summary

- A total of 820 producers were pooled under the Order with an average daily delivery per producer of 73,933 pounds, an increase of 4.4 percent from June.
- Pooled milk receipts totaled 1.879 billion pounds, an increase of 6.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 21.7 percent of total pooled milk receipts, down 2.7 percentage points from June.
- The average butterfat test of producer receipts was 3.75 percent.
- The average true protein test of producer receipts was 3.11 percent.
- The average other solids test of producer receipts was 5.76 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	21.7	408,003,612
Class II	6.6	124,173,577
Class III	0.6	11,487,515
Class IV	71.1	1,335,716,367
Total Pooled Milk		1,879,381,071

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	5.6294	2.4032
Butterfat Price	1.9583	2.6858
Other Solids Price	0.1492	0.1689

Class Price Factors

	2020	2019
	\$/cwt	
Class I	18.66	19.28
Class II	13.79	17.61
Class III	24.54	17.55
Class IV	13.76	16.90

July Producer Payment Composition: Protein Brings Home the Gold

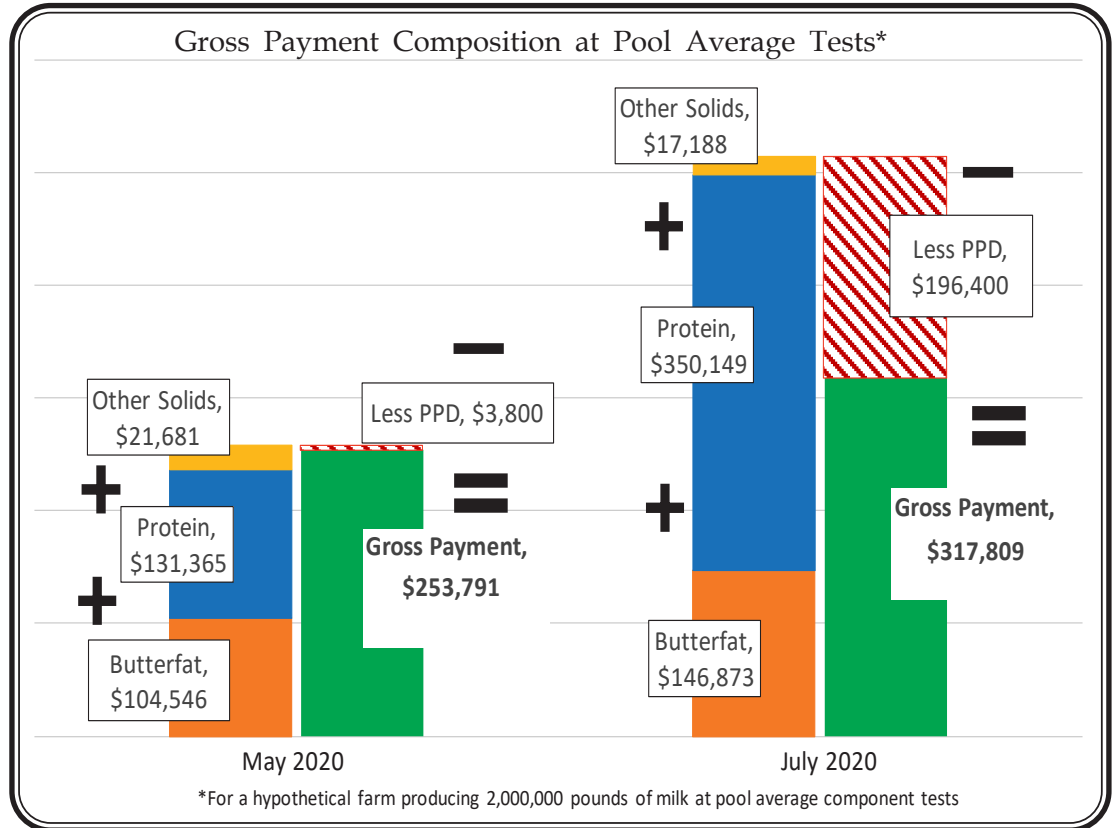
Under the California Federal Marketing Order (CFMO), producers are paid the value of the Class III components in their milk – butterfat, protein, and other solids – along with the Producer Price Differential (PPD). It is significant that this component value depends on both the component prices and the tests of those components in their milk. A producer’s gross payment can be calculated by taking the producer’s component pounds multiplied by the respective prices and adding the producer’s total pounds multiplied by the per pound PPD (divide the PPD by 100 to convert from hundredweight). The figures below show the composition of gross payment to a hypothetical dairy farmer producing two million pounds of milk at pool average tests in May 2020, when Federal Order class prices reflected

the Covid-19-induced market collapse, and in July 2020, with the rebound of dairy prices, specifically the Class III price. Notably, the gross payment for protein at pool average tests jumped 167 percent from May to July as the protein price hit a record-high of \$5.6294 per pound in July. The payment for butterfat, on the other hand, increased by a significant but more modest 40 percent in the same time frame. The chart to the right illustrates the shift from protein and butterfat contributing close to the

same portion of producer payment in May to protein contributing the majority of payment in July. This change in payment composition can be attributed to the nearly tripling of the protein price in the two-month span.

The Statistical Uniform Price (SUP) at pool average tests also experienced a strong increase from May to July, rising over three dollars, from \$12.69 to \$15.87 per hundredweight. It is important to note that this increase in blend price occurred despite a \$9.63 decrease in the PPD. In July 2020, the component value – mostly driven by the strong protein price – greatly exceeds the value of pooled milk; therefore, a negative PPD must be applied to balance the component value with that of the pool. In contrast, in May 2020, the component value – mostly due to the low component prices across the board – only slightly exceeded the value of pooled milk; in this case, a much smaller negative PPD was needed to balance.

For more information on the calculation of the July 2020 SUP and PPD, please see page 4. ❖



Composition of Gross Payment*, May and July 2020
At Pool Average Tests

	May 2020			July 2020		
	Test Percent	Price Per Pound	Gross Dollars	Test Percent	Price Per Pound	Gross Dollars
Butterfat	3.80%	\$1.3756	\$104,546	3.75%	\$1.9583	\$146,873
Protein	3.14%	\$2.0918	\$131,365	3.11%	\$5.6294	\$350,149
Other Solids	5.76%	\$0.1882	\$21,681	5.76%	\$0.1492	\$17,188
PPD per cwt		-\$0.19	-\$3,800		-\$9.82	-\$196,400
Total Gross Payment			\$253,791			\$317,809

*For a hypothetical farm producing 2,000,000 pounds of milk at pool average component tests

A Tale of Two Proteins

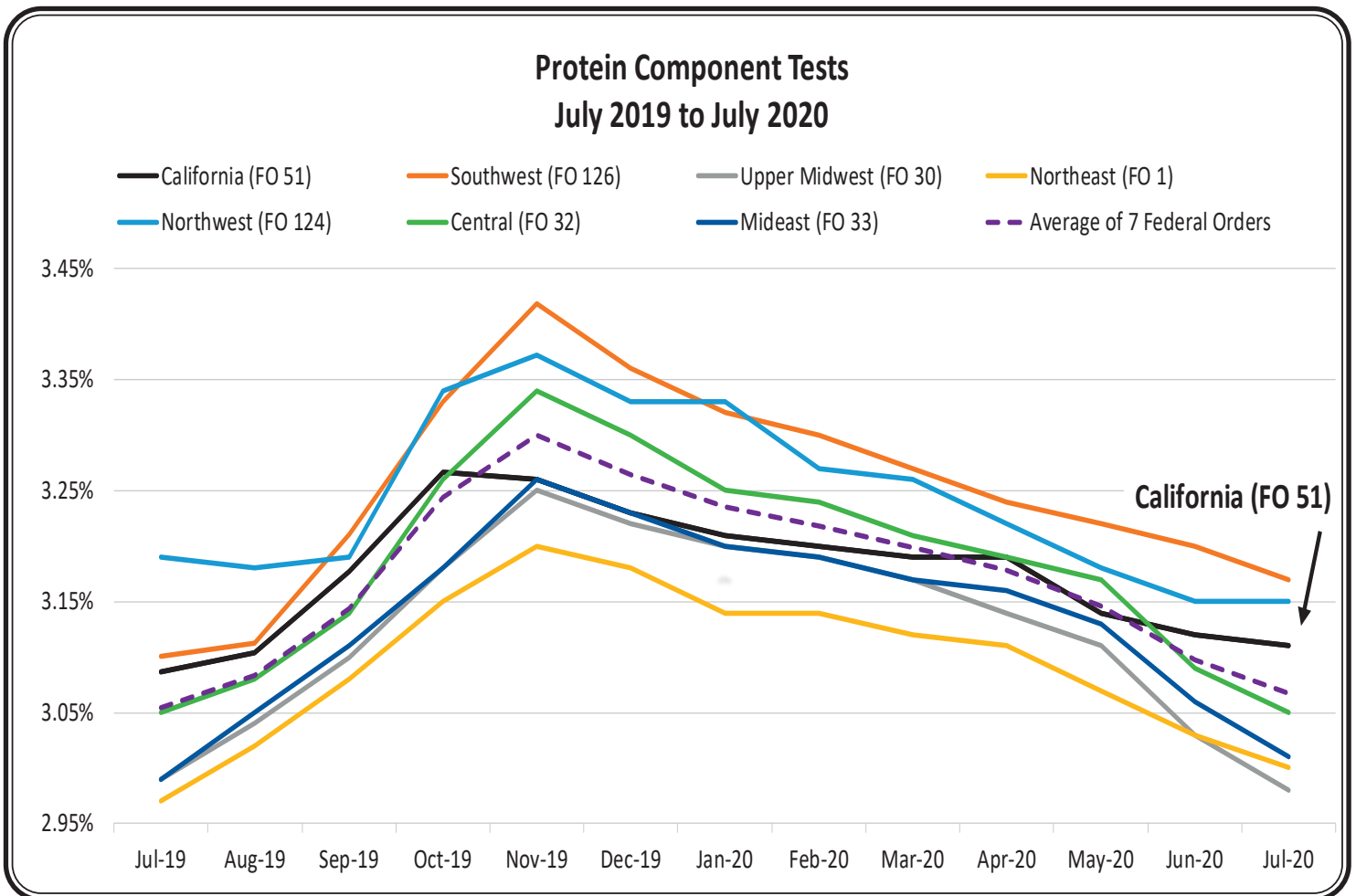
In the California Federal Milk Marketing Order (CFMO), producer gross payment is primarily based on three components: butterfat, other solids, and protein. There is still some confusion, however, over the difference between two types of protein measures – true and total – and which matters in the context of the CFMO.

Nitrogen in milk has both protein and non-protein nitrogen (NPN) sources. True protein represents only the nitrogen associated with protein, whereas total protein, also referred to as crude protein, includes the nitrogen from both protein and non-protein sources. This NPN accounts for about .19% of the “protein” in total protein and varies with feeding practices and farm management.

Including NPN in the measure of milk protein poses a problem, as NPN lacks the biological value of protein, does not impact cheese yield, and increases the amount of random error in milk protein data. For these reasons, true protein is the more accurate protein measure and therefore serves as the protein basis for producer payment in the CFMO, as well as the other Federal Orders (FO) with component pricing.

In contrast, the prior California State Marketing Order utilized total protein as the measure. Historical producer protein tests under the previous order can be compared to the tests of today’s CFMO by simply subtracting .19 percentage points from the total protein to obtain the true protein.

Expressing protein as true rather than total does lower tests but does not affect the value of protein in producer milk. Furthermore, true protein tests across the Federal Orders continue to follow the typical seasonal pattern of falling in the spring and rising in the fall. The accompanying figure shows protein tests across the seven FOs that include protein in their class pricing. California protein tests trended close to the average for most months in the past year and were above average in July 2020. ❖





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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	397,991,607	\$12.72	\$50,624,532.41	
Butterfat	10,012,005	1.8233	18,254,888.72	
Less: Location Adjustment to Handlers			(829,997.41)	\$68,049,423.72
Class II— Butterfat	13,290,163	1.9653	26,119,157.36	
Nonfat Solids	10,192,558	0.7956	8,109,199.14	34,228,356.50
Class III— Butterfat	1,736,699	1.9583	3,400,977.63	
Protein	316,326	5.6294	1,780,725.59	
Other Solids	583,434	0.1492	87,048.36	5,268,751.58
Class IV— Butterfat	45,349,197	1.9583	88,807,332.49	
Nonfat Solids	118,989,780	0.7959	94,703,965.91	183,511,298.40
Total Classified Value			<i>Total value of milk in the pool</i> →	\$291,057,830.20
Add: Overage—All Classes				16,884.26
Inventory Reclassification—All Classes				94,558.59
Other Source Receipts	640			(38.46)
Total Pool Value				\$291,169,234.59
Less: Value of Producer Butterfat	70,388,064	1.9583	(137,840,945.72)	
Value of Producer Protein	58,417,326	5.6294	(328,854,494.98)	
Value of Producer Other Solids	108,277,711	0.1492	(16,155,034.48)	(482,850,475.18)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i> ↗	(\$191,681,240.59)
Add: Location Adjustment to Producers				7,307,914.34
One-half Unobligated Balance—Producer Settlement Fund				707,433.03
Less: Producer Settlement Fund—Reserve				(889,390.71)
Total Pool Milk & PPD Value	1,879,381,711			(\$184,555,283.93)
Producer Price Differential		\$(9.82) ←	Value from which PPD per hundredweight is calculated →	
Statistical Uniform Price		\$14.72		

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