



# The Market Administrator's

# BULLETIN

## CALIFORNIA MARKETING AREA

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Federal Order No. 51

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### December Pool Price Calculation

The December 2019 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$17.60 per hundred-weight (cwt) for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Order. 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 (3.96 percent butterfat, 3.23 percent protein, and 5.74 percent other solids), the December SUP would be \$19.48 per cwt. The SUP at average component tests for December is higher than that of November by 36 cents. December's producer price differential (PPD) at Los Angeles County was -\$1.77 per cwt, an increase of \$1.62 compared to the previous month.

#### Product Prices Effect

Commodity product prices, all reported on a per pound basis, stabilized, with minimal variation between November and December. After dropping nearly 8 cents in November, the butter price rose slightly by a tenth of a cent in December. Increase in the cheese price slowed with December's price increasing only 3 cents compared to the previous month's gain of 20 cents. Both non-fat dry milk (NFDM) and dry whey prices decreased less than 1 cent. After falling nearly 10 cents in November, the butterfat price continued along its decline, falling over 10 cents in December to \$2.1952.

After rising 74 cents from October to November, the protein price fell 26 cents in December to \$3.6515. The nonfat solids and other solids prices both increased from November to December; the nonfat solids price rose 6 cents, while the other solids price increased just over 2 cents. Unlike November, class prices varied in both directions for the month of December. The Class I price jumped \$1.19, Class II fell 4 cents, Class III fell \$1.08, and Class IV increased 10 cents, all on a per hundredweight basis. The classified value of the pool (\$359,159,007.41) was still less than the combined value of producer components (\$399,528,077.85), resulting in a negative PPD; however, the difference was less than in November, causing a "less negative" PPD. For more information, see the table on page 4. ❖

### Pool Summary

- A total of 860 producers were pooled under the Order with an average daily delivery per producer of 70,512 pounds, an increase of 9.3 percent from November.
- Pooled milk receipts totaled 1.880 billion pounds, an increase of 13.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 24.3 percent of total pooled milk receipts, up 1.0 percentage point from November.
- The average butterfat test of producer receipts was 3.96 percent.

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	24.3	457,049,235
Class II	7.5	141,441,835
Class III	3.1	57,894,059
Class IV	65.1	1,223,470,234
Total Pooled Milk		1,879,855,363

#### Producer Component Prices

	2019	2018
	\$/lb	
Protein Price	3.6515	1.1417
Butterfat Price	2.1952	2.5080
Other Solids Price	0.1341	0.2775

#### Class Price Factors

	2019	2018
	\$/cwt	
Class I	21.43	17.15
Class II	16.81	15.67
Class III	19.37	13.78
Class IV	16.70	15.09

# 2019 Under the California Federal Marketing Order

## Growth in Statistical Uniform Price

As shown in Figure 1, the California Federal Marketing Order (CFMO) Statistical Uniform Price (SUP) at the announced standard tests – 3.50 percent butterfat, 2.99 percent protein, and 5.69 percent other solids – increased in 2019. The SUP at standard tests began the year at a low of \$15.09 per hundredweight (cwt) in January and increased for eight straight months through August before declining slightly for three months, finishing at \$17.60, up more than \$2.50 from January. The SUP at the considerably higher pool average component tests also grew steadily throughout 2019, except for small decreases in April and September. The SUP at pool average tests finished the year at \$19.48 per cwt, up more than \$2.75 per cwt from its January low of \$16.72.

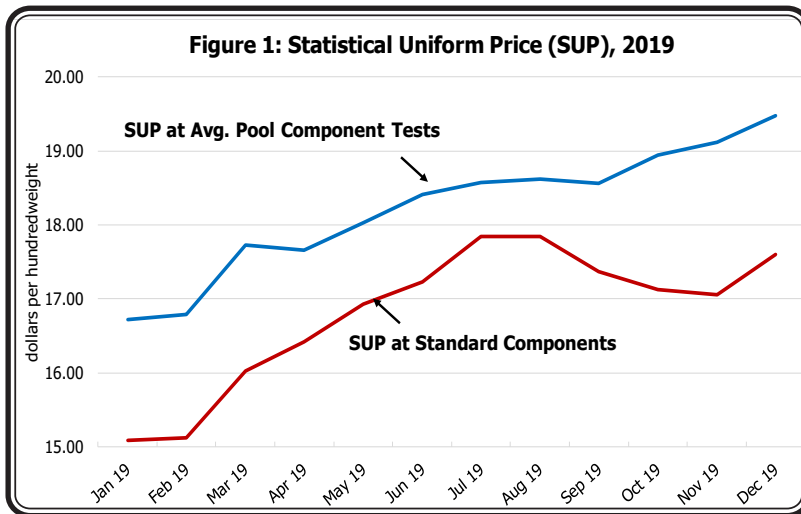
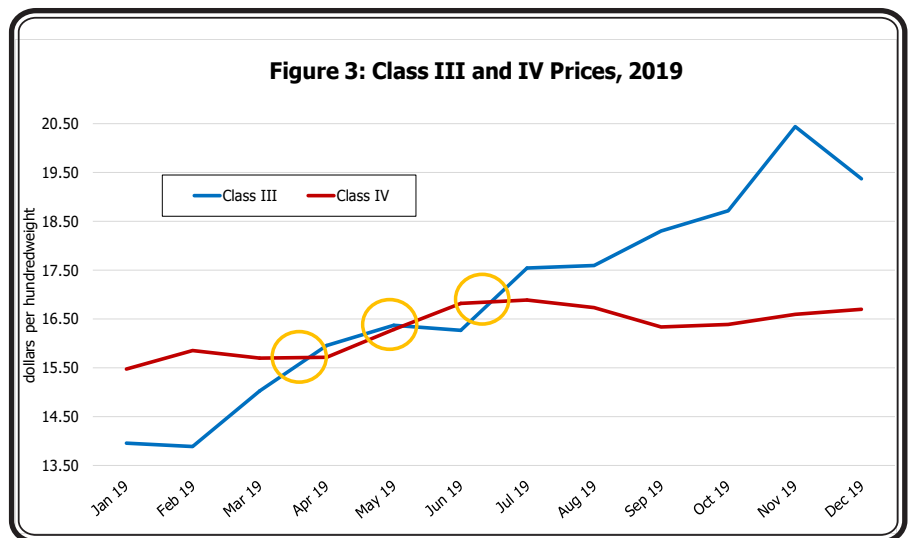
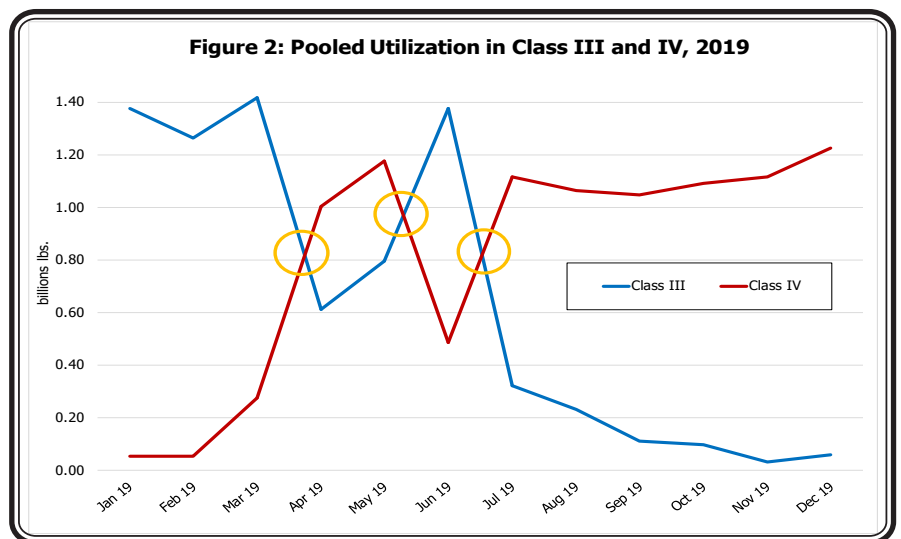


Figure 1 also depicts that high component tests in producer milk can drive up the SUP at the average pool tests, even when the SUP at standard tests decreases. In the period from July to December, the SUP at standard tests decreased \$0.25 per cwt from \$17.85 per cwt, its peak for the year, to \$17.60 per cwt; however, the SUP at average pool tests increased \$0.90 per cwt from \$18.58 per cwt in July to its peak of \$19.48 per cwt in December.

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## Class Utilization

Class I utilization in 2019 was varied due to changes in seasonal demand, exhibiting declines in June and November 2019 and a range between 385 million and 490 million pounds. Class II utilization grew modestly to its peak of more than 175 million pounds in October 2019; thereafter, Class II utilization decreased in November and recovered slightly to finish the year above 140 million pounds. Figure 2 illustrates the dynamic fluctuations in pooling of Class III and IV milk over the course of 2019. More than 1.35 billion pounds of Class III milk were pooled in January 2019, but less than 60 million pounds were pooled in December 2019 – a decrease exceeding one billion pounds; in contrast, just over 50 million pounds of Class IV milk were pooled in January 2019, but more than 1.2 billion pounds of Class IV milk were pooled in December 2019 – an increase exceeding one billion pounds.



## Pooling and Depooling

Three periods, circled on Figure 2, show large reversals in the Class III and Class IV pooled utilization; these reversals occurred from March to April, May to June, and June to July. Figure 3 depicts the Class III and IV minimum prices from January to December 2019; Figure 3 also highlights monthly changes in which the Class III price either

increases above or falls below the Class IV price. Notably, these swaps in the higher-priced class occur in the same months as the utilization of Class III and Class IV switches: March to April, May to June, and June to July. This suggests a significant relationship between which class price is higher and which class is more heavily pooled. In these instances, the lower-priced class is heavily pooled, while the higher-priced class is pooled less.

One determining factor behind the pooling decision is the relationship of the class prices to the SUP. If a class price is projected to be higher than the SUP (pooling decisions must be made in advance of the SUP calculation), then a handler producing products in the high-priced class is likely to withhold their volume from the pool, thereby avoiding a payment into the Producer Settlement Fund (PSF). If the class price is forecasted to be less than the SUP, the handler would likely pool their volume to receive a payment from the PSF. Handlers may choose to pool or depool milk based on a variety of market factors within the limitations under the CFMO, which are stated in the Federal Milk Market Order Language, available at [www.cafmimo.com/order/information](http://www.cafmimo.com/order/information). ❖

## USDA-AMS-Dairy Program: A Year in Review

*2019 was a busy year for the USDA-Agricultural Marketing Service (AMS)-Dairy Program.*

The USDA launched a dairy product purchasing program in **February**. To encourage domestic consumption, USDA began purchasing cheese and other dairy products for distribution to nutrition assistance programs.

In **March**, the USDA reauthorized the Dairy Forward Pricing Program (DFPP). The first 2018 Farm Bill program enacted, DFPP allows milk handlers to voluntarily enter into forward price contracts with producers or cooperatives for a negotiated raw milk price; this risk management tool benefits both buyers and sellers of milk.

In **May**, after hearing feedback from the industry, the USDA amended the Class I skim milk price formula from the higher of the monthly advanced pricing factors for Class III or Class IV skim milk to the average of the two factors plus \$0.74 per hundredweight plus the applicable adjusted Class I differential. Amending the formula decreases risk and uncertainty associated with hedging and allows for better use of risk management tools.

Congress improved on the former Margin Protection Program for Dairy Producers (MPP-Dairy) in the 2018 Farm Bill with the creation of the Dairy Margin Coverage Program (DMC), formally rolled out in **June**. The DMC increases the margin coverage level and provides a decision tool to help producers determine the level of coverage that gives them the strongest financial safety net.

Two new programs launched in **September**. The USDA awarded \$1.4 million through the new Dairy Business Innovation Initiative that promotes diversification of dairy product markets. The Milk Donation Reimbursement Program, which aims to reduce food waste and improve nutrition among low income individuals, also kicked off. Under this program, eligible dairy businesses can donate certain fluid milk products to non-profit organizations that distribute food to low income individuals and, in turn, receive limited reimbursements.

In **October**, the USDA unveiled the first-ever Fresh Fluid Milk Purchase Program, which addresses the surplus of fluid milk while also providing healthy U.S. milk products to food insecure households. Since the program's launch, \$53 million, or 4,900 truckloads, of fluid milk has been purchased.

Finally, the USDA continued to make strides in equipping the industry with more reliable, relevant, and user-friendly data with the completion of the new web-based platform, Market Analysis and Reporting Services (MARS). Here's to a successful 2019. Onwards to 2020! ❖

## What's in Store for Milk Prices in 2020?

Offering a glimpse into the future, the USDA National Agricultural Statistics Service forecasts the All Milk price, representing the gross price of milk before deductions, to remain strong as 2020 continues. As of January 10, 2020, the USDA predicts 2020's All Milk price to be \$19.25, an increase of 65 cents per cwt over 2019's predicted All Milk price. Class price predictions, as released in the Economic Research Service's (ERS) *Livestock, Dairy, and Poultry Outlook* and the USDA's *World Agricultural Supply and Demand Estimates (WASDE)*, are up from 2019; the forecasted Class III and IV prices are \$17.35 and \$16.90 per hundredweight, respectively, an increase from 2019's average. Independent of FMMO pricing, the Chicago Mercantile Exchange's (CME) 2020 futures prices for 2020 paint a slightly different picture than USDA estimates. As of January 13, 2020, CME futures for Class III and IV traded at an average \$17.40 and \$17.82, respectively. Interestingly, the CME futures show Class IV priced above Class III for most of the year. CME's futures for commodity products are mixed for 2020, showing monthly growth throughout the year for both whey and NDM but decreases in cheese and butter prices. These estimates once again vary slightly from USDA estimates. The *WASDE's* forecasts point to a falling price of whey, cheese, and butter, due to anticipated low demand and high stocks. Where both estimates agree is in the increasing value of NDM, likely due to projected strong demand in world export markets. ❖



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### Computation of Producer Price Differential and Statistical Uniform Price\*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	446,050,491	\$13.71	\$61,153,522.32	
Butterfat	10,998,744	2.3418	25,756,858.70	
Less: Location Adjustment to Handlers			(884,131.01)	\$86,026,250.01
Class II— Butterfat	13,613,402	2.2022	29,979,433.90	
Nonfat Solids	11,958,148	1.0478	12,529,747.45	42,509,181.35
Class III— Butterfat	1,604,509	2.1952	3,522,218.15	
Protein	1,953,419	3.6515	7,132,909.47	
Other Solids	3,362,708	0.1341	450,939.16	11,106,066.78
Class IV— Butterfat	48,157,803	2.1952	105,716,009.15	
Nonfat Solids	109,656,485	1.0378	113,801,500.12	219,517,509.27
<b>Total Classified Value</b>			<i>Total value of milk in the pool</i> →	<b>\$359,159,007.41</b>
Add: Overage—All Classes				39,081.36
Inventory Reclassification—All Classes				24,553.12
Other Source Receipts	62,120			993.92
<b>Total Pool Value</b>				<b>\$359,223,635.81</b>
Less: Value of Producer Butterfat	74,374,458	2.1952	(163,266,810.18)	
Value of Producer Protein	60,736,814	3.6515	(221,780,476.36)	
Value of Producer Other Solids	107,985,021	0.1341	(14,480,791.31)	(399,528,077.85)
<b>Total PPD Value Before Adjustments</b>			<i>Total Class III value of producer components</i> →	<b>(\$40,304,442.04)</b>
Add: Location Adjustment to Producers				7,071,100.64
One-half Unobligated Balance—Producer Settlement Fund				765,137.37
Less: Producer Settlement Fund—Reserve				(806,335.33)
<b>Total Pool Milk &amp; PPD Value</b>	1,879,917,483			<b>(\$33,274,539.36)</b>
Producer Price Differential		<b>\$(1.77)</b>	← <i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		<b>\$17.60</b>		

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