The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

October 2019 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 — website address: www.cafmmo.com

October Pool Price Calculation

The October 2019 statistical uniform price (SUP) for the California Marketing Area was announced at $17.13 per hundredweight for milk delivered to plants located in Los Angeles County, California, the pricing point for the California Order. The standard 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 pooled producer milk—3.90 percent butterfat, 3.27 percent protein, and 5.73 percent other solids—the SUP would be $18.95 per hundredweight. The SUP at the average component tests of pooled producer milk was 39 cents higher in October than in September, despite the decrease of 24 cents in the SUP as announced at standard tests. October's producer price differential (PPD) was -$1.59 per hundredweight, a decrease of $0.65 per hundredweight from last month.

Product Prices Effect

The butter price fell 8 cents per pound in October, a smaller drop in price than the decrease of 13 cents in September. Cheese prices increased over 6 cents in October, following an even larger increase of nearly 8 cents in September. Rising cheese prices continue to drive the upward trajectories of the protein price, and ultimately, the Class III price. Dry whey prices fell 3 cents in October, compared to relatively stagnate prices from August to September. Nonfat dry milk (NFDM) increased 4 cents from the previous month.

From September to October, the protein price climbed by nearly 31 cents to $3.1700 per pound, after an even larger increase from August to September of nearly 42 cents. The butterfat price fell by nearly 10 cents to $2.4031 per pound in October, a smaller decrease than September's drop of 15 cents. The remaining components experienced less significant price changes, with the other solids price decreasing 3 cents and the nonfat solids price increasing 4 cents.

The Class I and Class II prices decreased, while the Class III and Class IV prices increased. The Class I price fell one cent; the Class II price dropped 25 cents, a smaller decrease in Class II price than in September (67-cent decrease). The Class III price rose 41 cents and the Class IV price increased 4 cents, whereas in September the Class IV price dropped 39 cents. With the spread between the Class I and Class III prices falling 42 cents from last month, the PPD for October was even more negative than for September at all differential zones.❖

Pool Summary

- A total of 942 producers were pooled under the Order with an average daily delivery per producer of 63,202 pounds, a slight decrease of 0.2 percent from September.
- Pooled milk receipts totaled 1.846 billion pounds, an increase of 1.0 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 26.1 percent of total milk receipts, up 0.3 percentage points from September.
- The average butterfat test of producer receipts was 3.90 percent.
- The average true protein test of producer receipts was 3.27 percent.
- The average other solids test of producer receipts was 5.73 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	26.1	482,470,721
Class II	9.6	176,224,006
Class III	5.2	95,825,548
Class IV	59.1	1,091,117,617
Total Pooled Milk		1,845,637,892

Producer Component Prices

	$/lb
Protein Price	3.1700
Butterfat Price	2.4031
Other Solids Price	0.1447

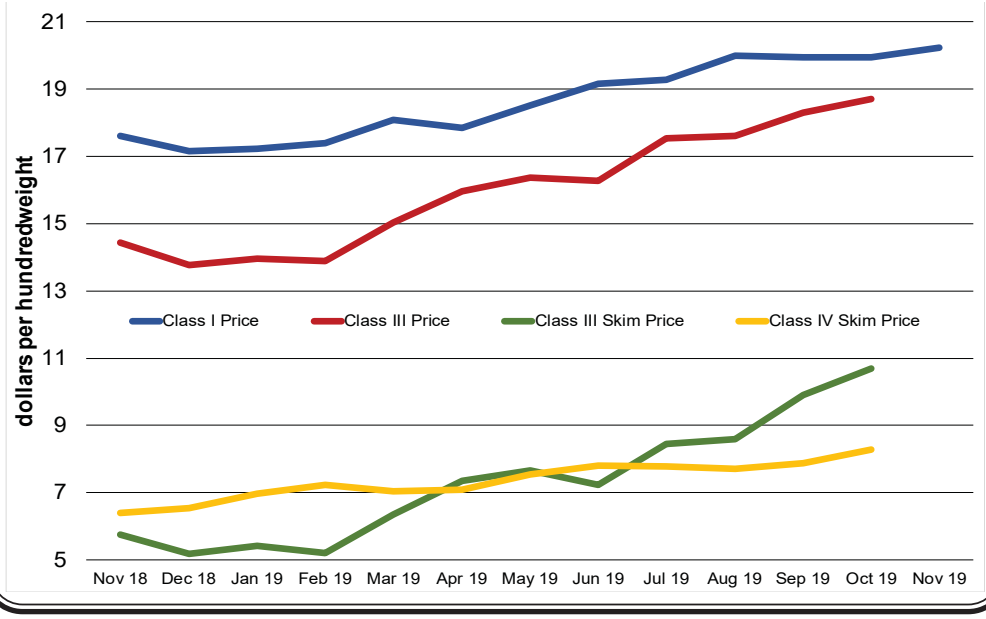
Class Prices

	$/cwt
Class I	19.94
Class II	16.68
Class III	18.72
Class IV	16.39

Cheese Price Driving Class I and III Prices

As shown in Figure 1, both the Class I and Class III prices have reached their highest points since the inception of the California Federal Marketing Order (CFMO). Most prices discussed in this article only refer to the time period that the CFMO has been in existence. The Class I price is announced in advance; therefore, it has already been released for November. The Class I price has risen $2.62 per hundredweight from $17.62 in November 2018 to $20.24 in November 2019, a year-over-year percentage increase of just under fifteen percent. The Class III price has risen even more significantly, rising $4.28 per hundredweight from $14.44 in November 2018 to $18.72 in October 2019, an eleven-month percentage increase of almost 30 percent.

Figure 1: Class I and III Prices, Class III, and IV Skim Prices, November 2018–October 2019



Skim Price Effect

The Class I and III prices are dependent on their respective skim milk and butterfat prices. The Class I skim price is calculated as the sum of the Class I differential and the average of the advanced Class III and Class IV pricing factors plus 74 cents. As depicted in figure 1, the Class III skim milk price has risen significantly since November 2018 while the Class IV skim price has increased slightly. Driven by the climb in Class III skim price, the Class I skim price has risen $3.30 from $8.91 per hundredweight in November 2018 to $12.21 per hundredweight in November 2019, an increase of 37 percent. The Class III skim milk price in October equaled $10.68 per hundredweight, nearly $5.00 higher (85 percent) than the $5.76 price in November 2018.

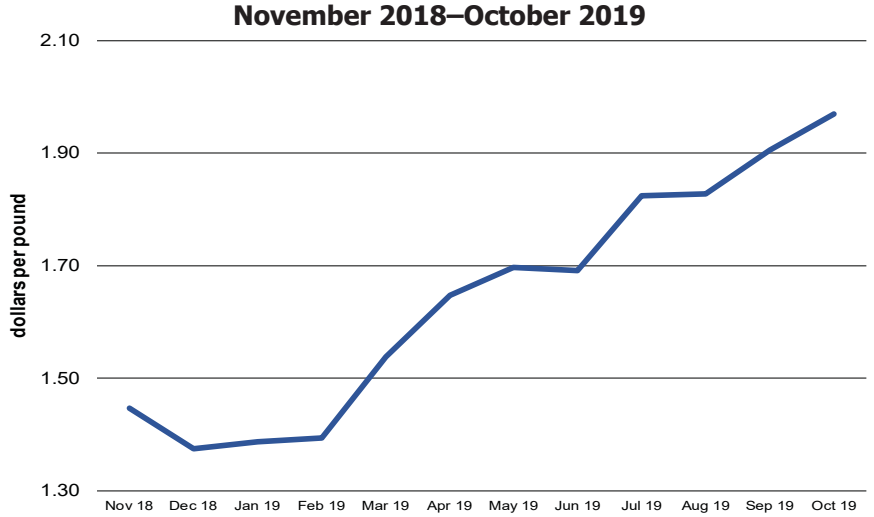
Cheese Price Influence

The Class III skim price is heavily influenced by the cheese price. As shown in figure 2, the cheese price has increased steadily since February 2019. The cheese price rose to $1.9694 per pound in October 2019 from $1.4500 per pound in November 2018, an increase of 36 percent. This strong growth in the cheese price has resulted in a higher Class III skim price, and, therefore, higher Class I and Class III prices.

Butterfat Prices

Class I and Class III butterfat prices, on the other hand, are at their lowest points since the start of the CFMO. Class I butterfat has fallen sixteen cents from $2.5768 per pound in November 2018 to $2.4165 per pound in November 2019, a decrease of more than six percent. Class III butterfat has dropped close to fourteen cents from $2.5385 per pound in November 2018 to $2.4031 per pound in October of 2019. Despite the fall in butterfat prices, the Class I and Class III prices are still at their highest points in CFMO history. More information on class price formulas is available at the *Agricultural Marketing Service* website: https//www.ams.usda.gov/resources/price-formulas.❖

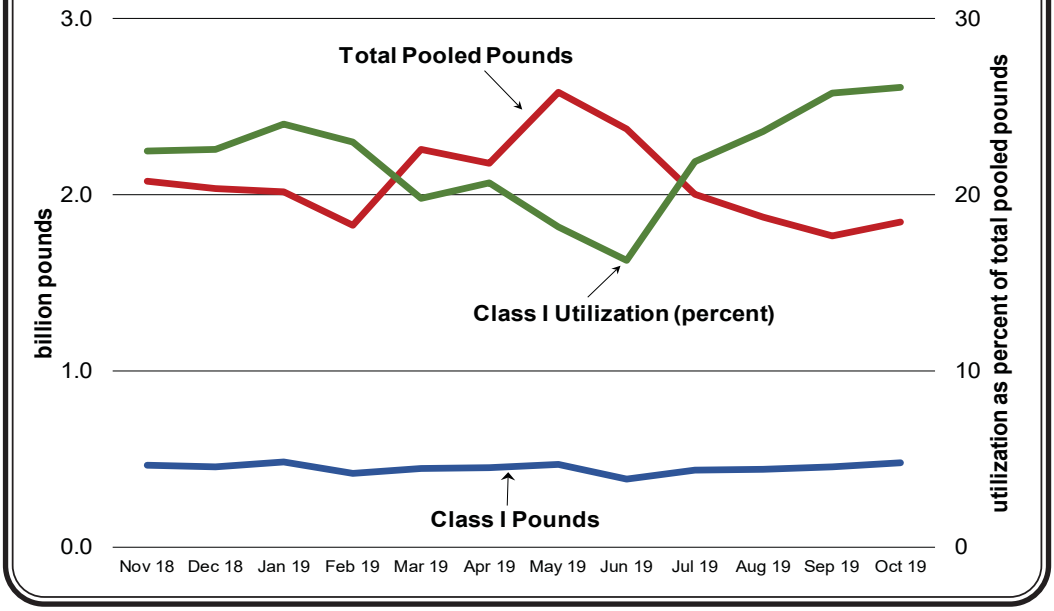
Figure 2: Monthly Average Cheese Prices*, November 2018–October 2019



*As reported in the *National Dairy Product Sales Report.*

Class I Utilization

In October, Class I utilization as a percent of pooled pounds reached its highest point since the inception of the California Federal Marketing Order (CFMO) at 26.1 percent, as shown in the accompanying figure. Class I pounds have remained relatively unchanged throughout the course of the year, with the exception of June 2019, varying from 421 to 484 million—a range of only 63 million pounds. Total pooled pounds, however, have varied significantly, from a high of just under 2.6 billion pounds in May 2019 to just above 1.8 billion pounds in October. This decrease in total pooled pounds, while the Class I pounds remain fairly constant due to the relatively consistent nature of demand for fluid milk and the required pooling of Class I milk, largely accounts for the rise in the Class I utilization percentage. Changes in pooled pounds and class utilization occur as handlers make economic decisions based on market conditions.❖



SUP and PPD—A Comparison of February and October 2019

At officially one year into the California Federal Milk Order (CFMO), the Statistical Uniform Price (SUP) at pool average component tests is the highest to date, despite the Producer Price Differential (PPD) being the most negative. As mentioned in last month's *Bulletin*, the SUP consists of milk's component values, in addition to the shared value of the milk utilized by class. The actual percentage of pooled milk components—for this month, 3.90 percent butterfat, 3.27 percent protein, and 5.73 percent other solids—often exceeds the standard percentages of 3.5 percent butterfat, 2.99 percent protein, and 5.69 percent other solids, at which the SUP is calculated and announced.

The main drivers of the SUP increase this month, like last month, are the high component values, specifically butterfat and protein. Rising butterfat values from September increased nearly four percent in October, while protein values also continued to grow by nearly three percent. The protein price jumped to $3.1700 per pound, the highest in the history of the CFMO, fueling the rising Class III price through both the protein price and the Class III skim milk price.

When comparing this month with the month having the lowest SUP at average tests yet highest PPD to date, February 2019, as shown in the accompanying chart, the key standout is the protein price, which nearly doubled between February and October. On the other hand, the other solids price and butterfat price both decreased slightly. With these differences, the SUP at average tests increased by $2.16, whereas the PPD fell by $2.82, both significant changes.

Essentially, the value of the components is much higher this month due to climbing component tests and a soaring protein price. Producer milk has a greater percentage of protein per hundredweight on average than last month, and each pound of protein reaps a higher price, almost double the price in February 2019. For these reasons, producers are capturing more than the value of the pool in their components, so the PPD must be negative to account for this difference. See the table on page 4 where the pool's total classified and component values are highlighted.❖

Component Prices and Pool Prices

Component Prices	February 2019	October 2019
Butterfat	$2.5345/lb	$2.4031/lb
Protein	$1.7776/lb	$3.1700/lb
Other Solids	$0.2631/lb	$0.1447/lb
Pool Prices		
SUP at Average Tests	$16.79/cwt	$18.95/cwt
PPD	$1.23/cwt	$(1.59)/cwt

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

RETURN SERVICE REQUESTED

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

FIRST CLASS MAIL

Computation of Producer Price Differential and Statistical Uniform Price*

		Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I—	Skim	471,471,147	$11.39	$53,700,563.64	
	Butterfat	10,999,574	2.5580	28,136,910.29	
Less:	Location Adjustment to Handlers			(930,299.02)	$80,907,174.92
Class II—	Butterfat	15,556,518	2.4101	37,492,764.05	
	Nonfat Solids	15,040,792	0.9489	14,272,207.53	51,764,971.58
Class III—	Butterfat	3,791,695	2.4031	9,111,822.25	
	Protein	250,968	3.1700	10,305,568.56	
	Other Solids	5,508,797	0.1447	797,122.95	20,214,513.76
Class IV—	Butterfat	41,550,220	2.4031	99,849,333.69	
	Nonfat Solids	98,176,289	0.9186	90,184,739.09	190,034,072.78
Total Classified Value				*Total value of milk in the pool* →	**$342,920,733.04**
Add:	Overage—All Classes				124,957.65
	Inventory Reclassification—All Classes				50,171.42
	Other Source Receipts	304,082			1,350.45
Total Pool Value					**$343,097,212.56**
Less:	Value of Producer Butterfat	71,898,007	2.4031	(172,778,100.61)	
	Value of Producer Protein	60,282,590	3.1700	(191,095,810.30)	
	Value of Producer Other Solids	105,796,119	0.1447	(15,308,698.41)	(379,182,609.32)
Total PPD Value Before Adjustments				*Total Class III value of producer components*	**($36,085,396.76)**
Add:	Location Adjustment to Producers				6,712,023.56
	One-half Unobligated Balance—Producer Settlement Fund				851,668.66
Less:	Producer Settlement Fund—Reserve				(828,772.94)
Total Pool Milk & PPD Value		1,845,941,974			**($29,350,477.48)**
	Producer Price Differential		**$(1.59)**		
	Statistical Uniform Price		**$17.13**		

Value from which PPD per hundredweight is calculated

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