The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

May 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 — website address: www.cafmmo.com

May Pool Price Calculation

The May 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at $11.95 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 May SUP would be $12.69 per cwt. May's SUP at average component tests is lower than April's by $1.28 per cwt, which was a smaller decline than the March to April drop of $3.35 per cwt. May's Producer Price Differential (PPD) at Los Angeles County was -$.19 per cwt, a decrease of 6 cents compared to the previous month's PPD of -$.13.

Product Prices Effect

Dairy market prices experienced mixed changes this month with some declines continuing, yet at much smaller magnitudes, and some prices rebounding.

After all monthly average product prices in the National Dairy Product Sales Report (NDPSR) decreased from March to April, movements from April to May varied, both in terms of direction and degree: the butter price increased just over 4 cents per pound after falling 49 cents the previous month; the cheese price fell just over 10 cents per pound after decreasing over 30 cents; the nonfat dry milk price declined just over 10 cents per pound after falling just over 16 cents; and the dry whey price increased nearly a penny per pound.

Resulting component prices, all on a per pound basis, varied in their changes from April to May: the butterfat price increased just over 5 cents; the protein price fell just over 39 cents, a bigger decline than the previous month; the nonfat solids price decreased just over 10 cents; and the other solids price once again declined less than a penny.

All class prices declined, with Class I experiencing the biggest drop. Finally reflecting the market downturn, the Class I

Pool Summary

- A total of 851 producers were pooled under the Order with an average daily delivery per producer of 72,087 pounds, a decrease of 0.7 percent from April.
- Pooled milk receipts totaled 1.902 billion pounds, a decrease of 7.13 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 22.4 percent of total pooled milk receipts, up 1.2 percentage points from April.
- The average butterfat test of producer receipts was 3.80 percent.
- The average true protein test of producer receipts was 3.14 percent.
- The average other solids test of producer receipts was 5.76 percent.❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	22.4	426,265,241
Class II	5.0	94,672,308
Class III	2.8	53,377,653
Class IV	69.8	1,327,407,971
Total Pooled Milk		1,901,723,173

Producer Component Prices

	2020	2019
	$/lb	
Protein Price	2.0918	2.1159
Butterfat Price	1.3756	2.5718
Other Solids Price	0.1882	0.1847

Class Price Factors

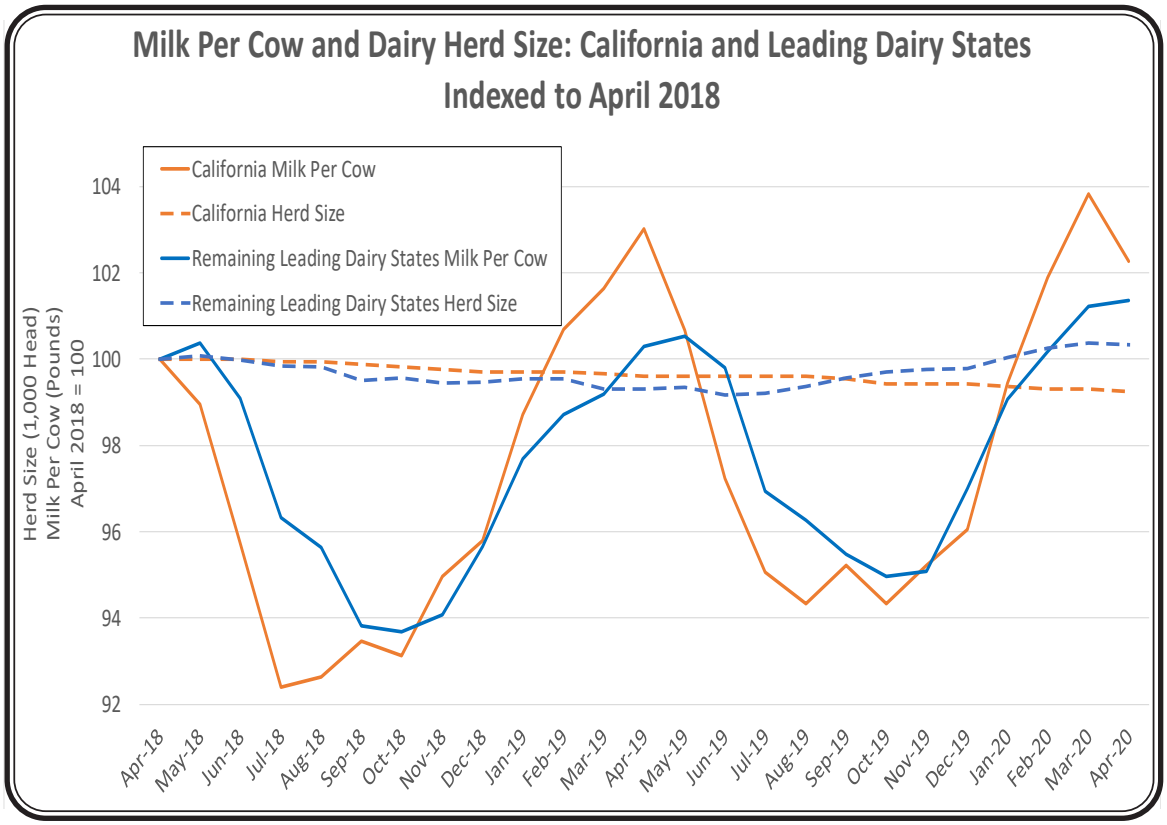
	2020	2019
	$/cwt	
Class I	15.05	18.52
Class II	12.30	16.48
Class III	12.14	16.38
Class IV	10.67	16.29

price decreased $3.69 per cwt, the biggest Class I price change in CFMO history. While Class II, III, and IV prices continued to decline from April to May, the decreases were much smaller than from March to April; $1.57 per cwt for Class II; 93 cents per cwt for Class III; and 73 cents per cwt for Class IV.

As a result of these price dynamics, May's SUP decreased from April's by 99 cents per cwt, which is less than a third of the decline from March to April. May's PPD declined as well, by 6 cents per cwt, as the spread narrowed between Class I (the highest priced class) and Class III.❖

Milk Production Trends: California and the U.S.

The California and U.S. dairy industries have been faced with a large surplus of milk as a result of the coronavirus and the associated closures of food service and institutional demand channels that coincided with this year's spring production flush. This surplus led to some dumping of milk in the California Federal Marketing Order (CFMO), followed by the California dairy industry's aggressive supply-side adjustments to better align output with market demand. The accompanying figure shows milk per cow and herd size in California and the remaining leading dairy state total*, as reported by the USDA National Agricultural Statistics Service (NASS) in its monthly *Milk Production Report*, indexed to April 2018. Indexing milk per cow and milk production to April 2018 highlights the rate of change for each data from April 2018, allowing for better comparison of the data on a compact scale. The figure illustrates the volatility and seasonality of milk production in California, a decline in the state dairy herd size, and the impacts of efforts to curb production between March and April 2020.



During this period, California tends to experience higher peaks and lower troughs in milk production per cow than the other leading dairy states. California's milk production per cow plummets in the early summer as temperatures in the state exceed that of other leading dairy states like Wisconsin and New York.

California also sees a higher peak of milk per cow earlier in the spring brought on by an earlier exit from winter compared to the other leading dairy states. California also shows a consistently, though modestly, decreasing herd size since April 2019. This contrasts with the remaining top dairy states, which show moderate gains from June 2019 to March 2020 before decreasing slightly in April 2020. Significantly, the figure depicts the decline in California's milk per cow from March 2020 to April 2020 was sharper than that of the other leading dairy states, suggesting that California producer's efforts to reduce output through altered production practices and implementation of production penalties had a more pronounced impact than those in the rest of the nation during this period.❖

*Leading Dairy States include the 23 states published in Milk Production for April 2018. California's data has been removed for the purposes of this analysis.

The Dairy Market's Wild Ride

Dairy markets are experiencing one of the quickest rebounds in Federal Milk Marketing Order (FMMO) history. Weekly commodity prices provide a better indication than the monthly average prices for how quickly or slowly the marketplace is changing. As the accompanying chart illustrates, National Dairy Product Sales Report (NDPSR) weekly dairy prices are moving at a rapid pace. Within the last two months, the NDPSR butter and cheese prices have hit both their four-year lowest and highest week-to-week percent changes. The butter price dropped over 23 percent from April 4th to 11th and, just over a month later, rose nearly 11 percent, from May 9th to 16th. The cheese price dropped roughly 14 percent from April 11th to 18th and, just over a month later, increased nearly 19 percent from May 23rd to 30th.

Upcoming Milk Checks

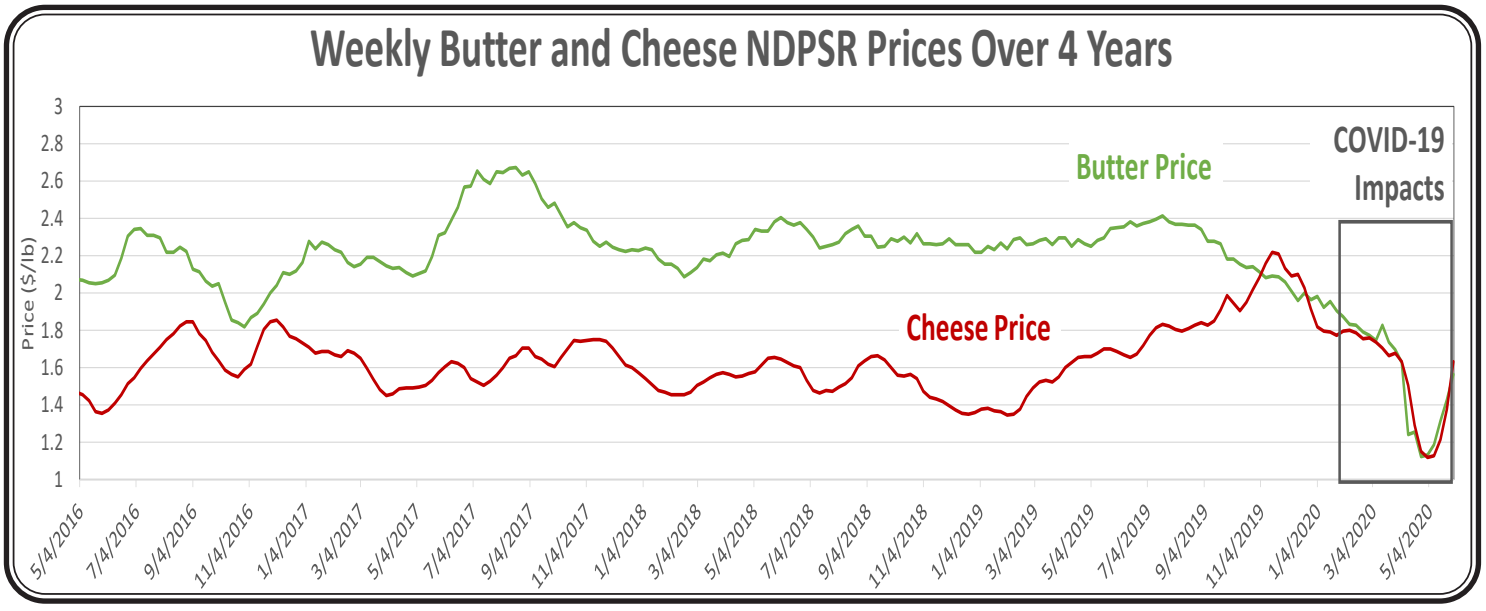
What does this mean for upcoming milk checks? June's Class III price (driven by NDPSR cheese price gains) is expected to jump over $7 per hundredweight (cwt), exceeding $19 per cwt. Assuming market prices hold, Class III will be the highest of all class prices for June. The Class I price (announced in advance and calculated using NDPSR prices from the first two weeks of May) will not reflect the price spike that will be captured in the June class and component prices (Class II, III, and IV). Class I, therefore, will likely end up as the lowest class price for the month.

Given the current high Class III price, handlers will likely continue to not pool their Class III utilization and may trim their Class II as well. Handlers with Class I utilization, which is always required to be pooled on the Order, will be in the rare position of receiving a payment from the producer settlement fund. As was the case last fall when large negative PPDs were generated, the collective value of producer milk components will exceed the classified value of the pool, resulting in a negative PPD since money out of the Federal Order pool (producer component values plus the PPD) must equal money in (the pool's classified value). For details on the PPD calculation, refer to the computation on page 4.

Going Forward

June's unusual alignment of class prices and handlers' economic pooling decisions will result in a record low PPD, expected to exceed negative $6 per cwt. Along with June's large negative PPD, the SUP is projected to jump over $3 per cwt from May's all-time low.

After June, the next several months will likely see negative PPDs, but at much smaller magnitudes, with high NDPSR prices becoming fully reflected in all class and component prices. As discussed in the previous *Bulletin*, Chicago Mercantile Exchange (CME) futures can be used to forecast future FMMO prices. SUP estimates for the remainder of the year average $16.66 per cwt when substituting CME Class III and Class IV futures values as of June 11th for actual FMMO prices. Despite a mid-year wild ride in prices, the annual average SUP is now expected to be only marginally lower than last year's average.❖



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

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, audiotape, 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*

	Product Pounds	Price per cwt./lb.	Component Value	Total Value
Class I— Skim	416,087,271	$10.82	$45,020,642.72	
Butterfat	10,177,970	1.3158	13,392,172.93	
Less: Location Adjustment to Handlers			(858,408.95)	$57,554,406.70
Class II— Butterfat	12,209,015	1.3826	16,880,184.15	
Nonfat Solids	7,598,050	0.8589	6,525,965.14	23,406,149.29
Class III— Butterfat	2,285,230	1.3756	3,143,562.38	
Protein	1,701,973	2.0918	3,560,187.14	
Other Solids	3,059,893	0.1882	575,871.85	7,279,621.37
Class IV— Butterfat	47,686,170	1.3756	65,597,095.46	
Nonfat Solids	118,345,024	0.6746	79,835,553.19	145,432,648.65
Total Classified Value			*Total value of milk in the pool* →	**$233,672,826.01**
Add: Overage—All Classes				119,472.35
Inventory Reclassification—All Classes				53,956.87
Other Source Receipts	148,820			4,806.88
Total Pool Value				**$233,851,062.11**
Less: Value of Producer Butterfat	72,358,385	1.3756	(99,536,194.42)	
Value of Producer Protein	59,621,206	2.0918	(124,715,638.71)	
Value of Producer Other Solids	109,451,784	0.1882	(20,598,825.75)	(244,850,658.88)
Total PPD Value Before Adjustments		*Total Class III value of producer components*		**($10,999,596.77)**
Add: Location Adjustment to Producers				7,368,221.55
One-half Unobligated Balance—Producer Settlement Fund				868,294.66
Less: Producer Settlement Fund—Reserve				(850,476.27)
Total Pool Milk & PPD Value	1,901,871,993			**($3,613,556.83)**
Producer Price Differential		**$(0.19)**		
Statistical Uniform Price		**$11.95**		

Value from which PPD per hundredweight is calculated

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