



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

September 2020

Federal Order No. 51

To contact the California Marketing Area office:

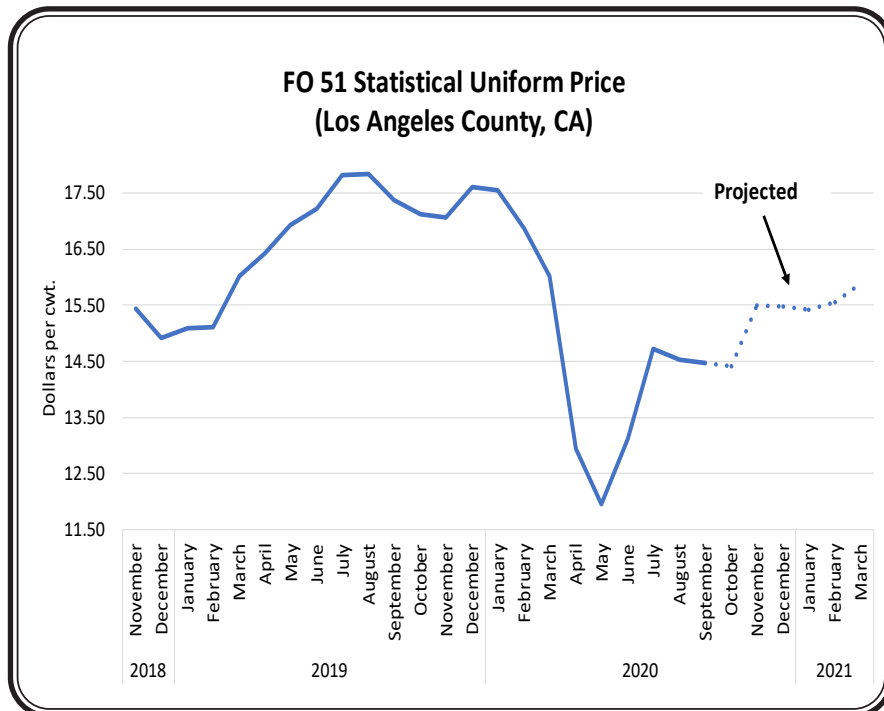
Tel.: (916) 702-6455 — Fax: (833) 673-3751

Mailing Address: P.O. Box 6660, Folsom, CA 95763

e-mail address: market.admin@cafmmo.com — website address: www.cafmmo.com

Price Outlook

The September Statistical Uniform Price (SUP) was calculated to be \$14.47 per hundredweight (cwt), falling 6 cents from August's SUP and well below that of September 2019. This year's extreme price volatility has resulted in a lower average SUP; the average SUP for the first three quarters of 2019 was \$16.65 per cwt, while that of 2020 is \$14.69 per cwt, a decrease of \$1.96. Using Chicago Mercantile Exchange (CME) futures as the basis of estimation, the 2020 average SUP is projected to be \$14.80, a decrease of \$2.00 per cwt compared to 2019. Although the SUP is expected to decrease slightly from September to October, the CME futures — as of October 20th, 2020 — indicate that the SUP will not approach the lows experienced in April and May. In fact, the SUP is expected to increase through most of the year and into the first quarter of 2021 (Q1 2021).



(Price Outlook continued on Page 2)

Pool Summary

- A total of 818 producers were pooled under the Order with an average daily delivery per producer of 73,249 pounds, an increase of 0.8 percent from August.
- Pooled milk receipts totaled 1.798 billion pounds, an increase of 1.4 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 22.8 percent of total pooled milk receipts, up 1 percentage point from August.
- The average butterfat test of producer receipts was 3.80 percent.
- The average true protein test of producer receipts was 3.17 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	22.8	409,471,470
Class II	9.1	163,486,348
Class III	1.2	21,075,579
Class IV	67.0	1,203,493,020
Total Pooled Milk		1,797,526,417

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	3.3935	2.8633
Butterfat Price	1.5932	2.4982
Other Solids Price	0.1241	0.1758

Class Price Factors

	2020	2019
	\$/cwt	
Class I	20.54	19.95
Class II	13.16	16.93
Class III	16.43	18.31
Class IV	12.75	16.35

Butter

National Dairy Product Sales Report (NDPSR) monthly butter prices, which are inputs to Federal Order (FO) price formulas, decreased for nine straight months from August 2019 until April 2020. Since April, butter prices have experienced mixed effects with strong increases in June and July followed by declines in August and September. Current butter stocks suggest inventories could weigh on future prices as the latest Cold Storage report by the National Agricultural Statistics Service (NASS) lists end-of-August butter stocks up 22 percent from year-ago levels. According to CME futures, however, butter prices are expected to move upward through the holiday season and into Q1 2021, closing the gap with cheese prices.

Cheese

Recovering from COVID19-induced lows, the NDPSR cheese price hit \$2.5873 per pound in July 2020 – the highest price on record since FO reform in 2000. The unprecedented increase can be partly attributed to government purchase programs and modest recovery in foodservice demand. Cheese stocks at the end of August were down one percent year over year, according to NASS. CME futures expect cheese prices to increase in October and November 2020 before moving downward through Q1 2021.

The September NDPSR nonfat dry milk price (NFDM) rose above \$1.00 per pound; a mark last achieved in March 2020 before COVID19's effect on FO prices was fully realized. CME futures expect the NFDM price to continue to increase through the end of 2020 and climb above \$1.16 per pound to end Q1 2021. Strong exports are likely among the reasons for optimism in NFDM price expectations; the latest report from the United States Dairy Export Council (USDEC) had August's exports of NFDM and skim milk powder up 35 percent year over year.

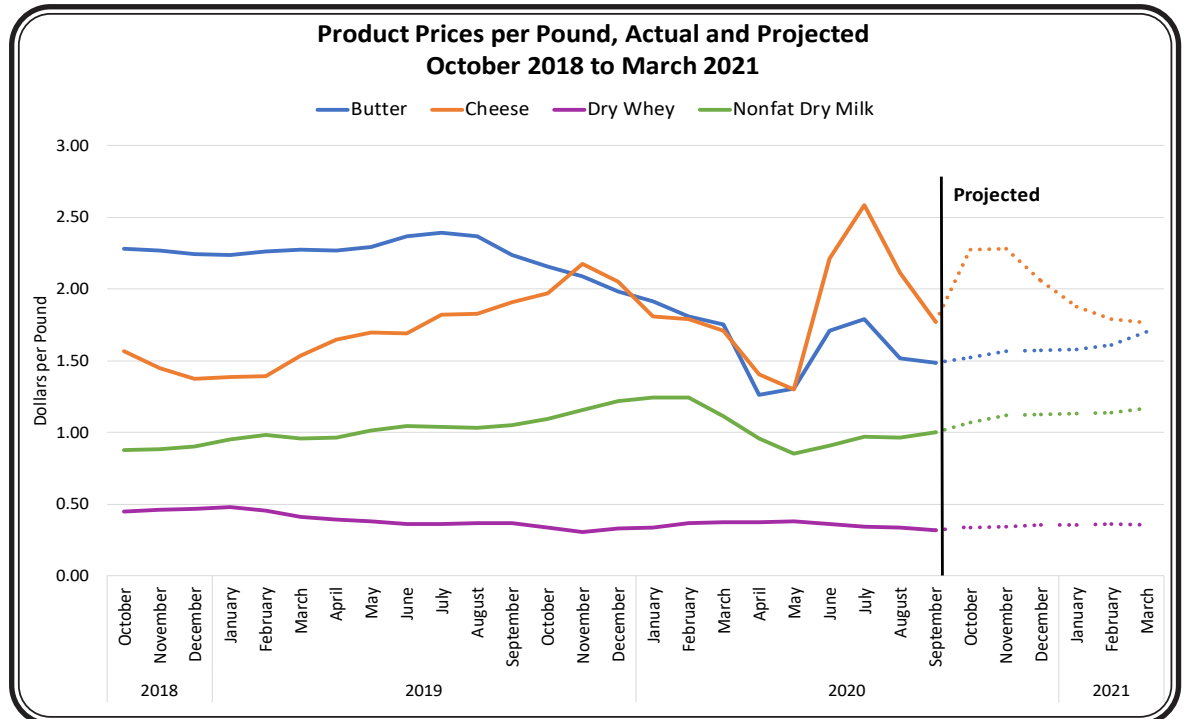
Nonfat Dry Milk

The September NDPSR nonfat dry milk price (NFDM) rose above \$1.00 per pound; a mark last achieved in March 2020 before COVID19's effect on FO prices was fully realized. CME futures expect the NFDM price to continue to increase through the end of 2020 and climb above \$1.16 per pound to end Q1 2021. Strong exports are likely among the reasons for optimism in NFDM price expectations; the latest report from the United States Dairy Export Council (USDEC) had August's exports of NFDM and skim milk powder up 35 percent year over year.

CME futures expect the NFDM price to continue to increase through the end of 2020 and climb above \$1.16 per pound to end Q1 2021. Strong exports are likely among the reasons for optimism in NFDM price expectations; the latest report from the United States Dairy Export Council (USDEC) had August's exports of NFDM and skim milk powder up 35 percent year over year.

Dry Whey

NDPSR dry whey prices have hovered near \$0.35 per pound for most of 2020 but trended down from July to September 2020. Dry whey last cracked the \$0.40-per-pound mark in March 2019. CME futures expect dry whey prices to increase slightly through the end of 2020 and into Q1 2021. ❖

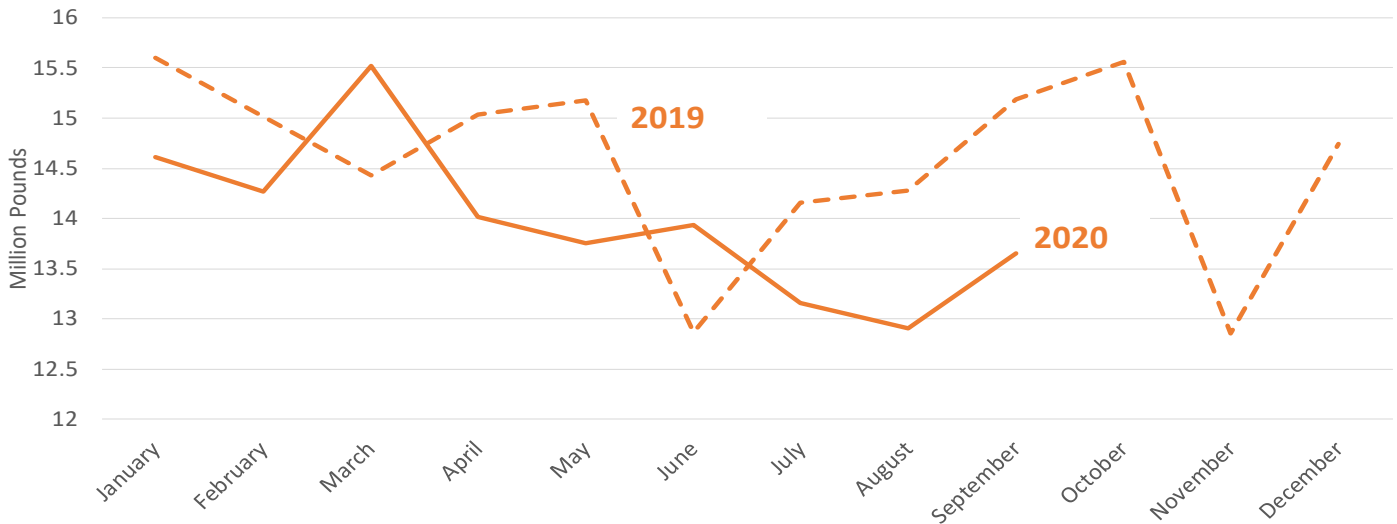


Back-to-School Class I Trends: 2019 vs. 2020

During a typical year, fluid milk volume experiences seasonal ebbs and flows due to normal production and demand fluctuations. 2020, however, is not turning out to be a typical year.

The following chart shows average daily delivery of fluid milk, or Class I receipts for a given month divided by the number of days in the month, for 2019 and 2020 in the California Federal Marketing Order (CFMO). 2020 began nearly one million pounds below the previous January's levels, which is consistent with fluid milk's gradual decline over the last decade. Although COVID-19 caused an initial surge of fluid milk "panic buying" in retail channels, evident in the Class I spike in the CFMO's March pool, Class I sales thereafter decreased.

**Federal Order 51 Class I Average Daily Delivery
2019 vs. 2020**



Schools are a Key Driver of Class I Milk Trends

School closures play significant roles in the Class I decline and the break from typical Class I trends in 2020. Normally accounting for about 8 percent of fluid milk sales nationwide, schools are major buyers of milk for student breakfast and lunch programs; when they abruptly closed in the spring and shifted to distance learning models with limited ability to provide school meals, demand decreased for fluid milk. In addition, Class I receipts normally decline from May to June and rise between July and September, coinciding with the end and beginning of the school year for most California public schools. 2020 did not see the ramping up of Class I production that usually happens between July and September, as average daily delivery declined from July to August 2020. While average daily delivery of fluid milk did increase nearly 745,000 pounds from August to September 2020, the metric is still substantially below – over 1.5 million pounds – year-ago levels.

Class I Products Included in School Meals Saw Big Year-Over-Year Declines

A deeper dive into the breakdown of Class I products in the CFMO reveals that three product categories saw major declines in sales from September 2019 to September 2020: flavored (nearly 50 percent); fat-free (just over 25 percent); and low-fat/1% (just over 11 percent). As the accompanying table shows, these three products also experienced significant year-over-year drops in August. California public schools typically offer conventional fat-free and low-fat milk products, which can be fortified or flavored (if fat-free), according to the California Department of Education. Lower-fat flavored drink – including flavored fat-free milk that can

be served in schools – makes up roughly 90 percent of the flavored category in the table; therefore, the sharp decrease further suggests that public school closures are tied to lower Class I sales.

As the pandemic continues to unfold and uncertainty abounds, Class I trends will likely continue to depart from typical patterns. ❖

Year-over-Year Percent Changes in Fluid Milk Products in the California Marketing Area

	September	August	July
Whole Milk*	0.89	-3.92	0.53
Organic Milk Products	6.70	7.76	23.11
Fat-free **	-25.45	-24.84	-17.50
Low-fat/1% **	-11.16	-13.70	3.71
Reduced Fat/2% **	0.03	-7.89	-5.97
Flavored***	-48.75	-69.40	6.67
Other****	-3.44	-9.48	-15.18

* Includes lactose-free whole conventional milk products.

** Includes lactose-free and fortified conventional products.

*** Combines conventional flavored milk (more than 2.5% butterfat) and flavored drink (less than 2.5% butterfat).

This category consists of roughly 90 percent flavored drink.

**** Combines buttermilk and eggnog.



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, 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	399,631,290	\$15.12	\$60,424,251.05	
Butterfat	9,840,180	1.6985	16,713,545.73	
Less: Location Adjustment to Handlers			(821,742.83)	\$76,316,053.95
Class II— Butterfat	15,204,557	1.6002	24,330,332.14	
Nonfat Solids	13,691,959	0.8700	11,912,004.33	36,242,336.47
Class III— Butterfat	2,046,049	1.5932	3,259,765.26	
Protein	630,998	3.3935	2,141,291.71	
Other Solids	1,134,368	0.1241	140,775.06	5,541,832.03
Class IV— Butterfat	41,156,824	1.5932	65,571,052.00	
Nonfat Solids	107,669,969	0.8253	88,860,025.45	154,431,077.45
Total Classified Value			<i>Total value of milk in the pool</i>	\$272,531,299.90
Add: Overage—All Classes				260,322.57
Inventory Reclassification—All Classes				59,663.76
Other Source Receipts	0			0.00
Total Pool Value				\$272,851,286.23
Less: Value of Producer Butterfat	68,247,610	1.5932	(108,732,092.24)	
Value of Producer Protein	56,999,950	3.3935	(193,429,330.35)	
Value of Producer Other Solids	103,056,645	0.1241	(12,789,329.67)	(314,950,752.26)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	(42,099,466.03)
Add: Location Adjustment to Producers				6,888,059.30
One-half Unobligated Balance—Producer Settlement Fund				766,370.53
Less: Producer Settlement Fund—Reserve				(786,481.62)
Total Pool Milk & PPD Value	1,797,526,417			(35,231,517.82)
Producer Price Differential		\$(1.96)	<i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		\$14.47		

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