



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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November Pool Price Calculation

The November 2019 statistical uniform price (SUP) for the California Marketing Area was announced at \$17.06 per hundredweight (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 test of producer pooled milk – 3.93 percent butterfat, 3.26 percent protein, and 5.74 percent other solids – the November SUP would equate to \$19.12 per cwt. The SUP at average component tests for November is higher than that of October by 17 cents. November's producer price differential (PPD) at Los Angeles County was -\$3.39 per cwt, a decrease of \$1.80 per cwt from the previous month.

Product Prices Effect

Commodity product price changes from October to November were mixed. The butter price fell almost 7 cents from October's. The dry whey price also fell this month, down almost 10 percent from October's price. Nonfat dry milk's value grew almost 6 cents, while cheese's value jumped 20 cents, or over 10 percent.

Component prices experienced considerable variation from October to November. Both the butterfat and other solids price fell in November; butterfat price dropped 8 cents, while the other solids price fell nearly 3 cents. Following the same growth trend as the cheese price, the protein price grew 74 cents. Additionally, the nonfat solids price increased nearly 6 cents from October to November. Component prices are reported on a per pound basis.

Apart from the Class III price, class prices remained fairly constant in November, all observing a less than 2 percent change from the month of October. The Class I price rose 30 cents per cwt, while Class II and IV grew 17 and 21 cents, respectively. The Class III price had the largest change, increasing \$1.73 per cwt from October to November. Class III was the highest of all class prices for the month of November (see class price factors on right column). Since producers are paid for their milk components at the same price as the components in Class III (however, the value of the pool consists of the value of milk in all classes), the amount credited in the pool for producer milk components exceeded the pool value, resulting in the significant negative PPD. See price computation on page 4. ❖

Pool Summary

- A total of 856 producers were pooled under the Order with an average daily delivery per producer of 64,504 pounds, an increase of 2.1 percent from October.
- Pooled milk receipts totaled 1.656 billion pounds, a decrease of 7.3 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 23.3 percent of total pooled milk receipts, down 2.8 percentage points from October.
- The average butterfat test of producer receipts was 3.93 percent.
- The average true protein test of producer receipts was 3.26 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	23.3	385,613,478
Class II	7.5	124,565,835
Class III	1.9	31,753,619
Class IV	67.3	<u>1,114,534,332</u>
Total Pooled Milk		1,656,467,264

Producer Component Prices

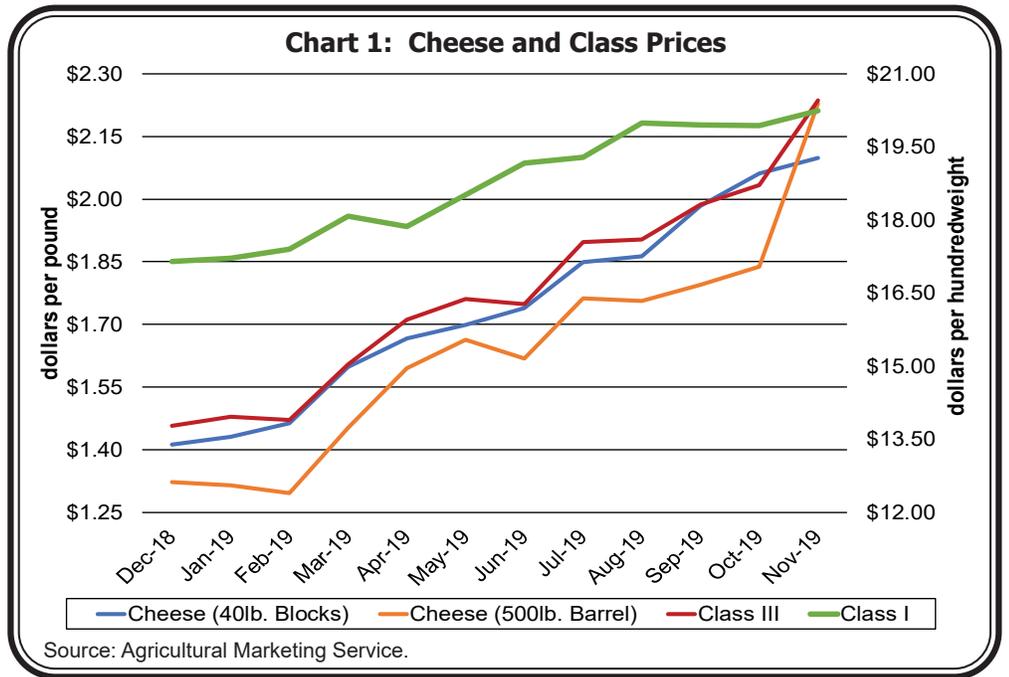
	2019	2018
	\$/lb	
Protein Price	3.9118	1.3419
Butterfat Price	2.3195	2.5385
Other Solids Price	0.1112	0.2714

Class Price Factors

	2019	2018
	\$/cwt	
Class I	20.24	17.62
Class II	16.85	15.63
Class III	20.45	14.44
Class IV	16.60	15.06

Cheese Prices Continue to Drive Class III Milk Value

November's Class III milk price is at its highest since 2014, a record high year for milk prices in all Federal Orders. At \$20.45 per hundredweight, this month marks the first time in the California Federal Milk Marketing Order (CFMO) that the Class III milk price has surpassed the price of milk in all other classes. The main determinant of value in Class III milk, the protein price, has increased 228 percent since the beginning of the year, moving the Class III price along with it. The increase in the protein price can be explained by the increase in both block and barrel cheese prices, as the average of the two are used in the calculation of the protein price. Prices have risen considerably in 2019: the block price increased 48.6 percent, the barrel price grew 68.5 percent, and the Class III price increased 46.5 percent. This relationship between the increasing Class III milk price and block and barrel cheese prices is illustrated in Chart 1.



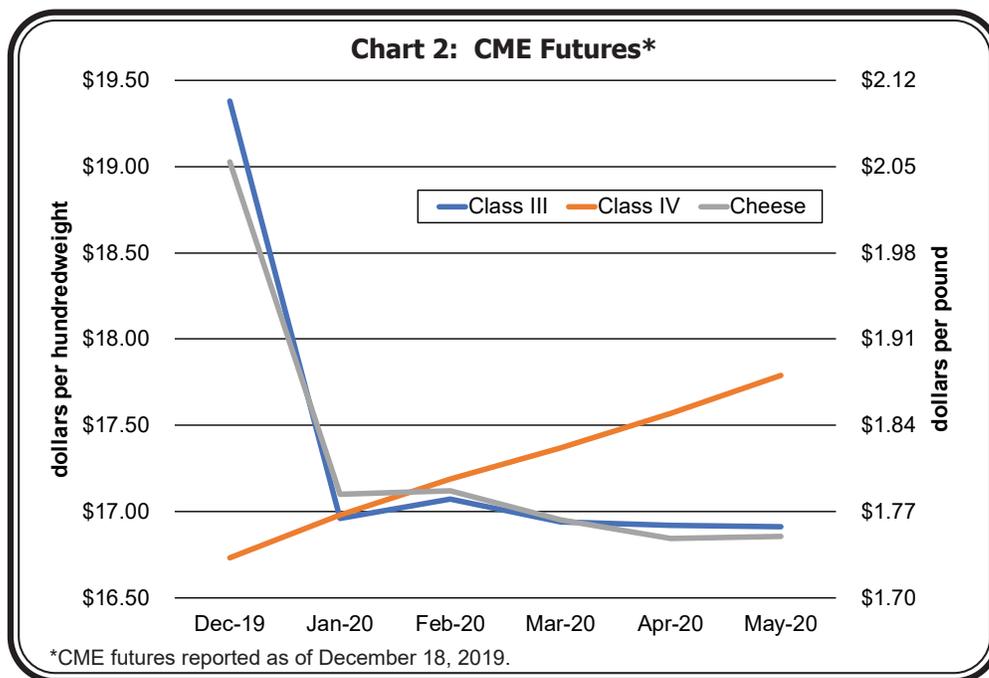
price, or \$3.39 per hundredweight, into the Federal Order pool. As a result, November's Class III volume was the lowest monthly volume to date at 32 million pounds, down considerably from the 1.4 billion pounds of Class III milk pooled in January.

Class III Milk Hits Record-Low Utilization

Because November's Class III price was the highest of all the classes, the economic incentive for handlers with Class III utilization was to de-pool this milk, thereby avoiding a pool payment obligation. By opting not to pool Class III milk, handlers avoided paying the difference between the Statistical Uniform Price (SUP) and the class

Cheese Futures Declining

Looking ahead, it is unlikely that Class III will remain the highest-priced class. The weekly block and barrel prices released by the Agricultural Marketing Service (AMS) for the first two weeks in December declined from November's high prices, suggesting a potential decrease in the Class III milk price to come.



The Chicago Mercantile Exchange (CME) operates a global markets platform where milk futures are bought, sold, and traded. The CME Group, independent of any Federal Order pricing, publishes futures prices for Class III and IV milk along with cheese prices that provide a window into possible future prices. As of December 18, 2019, CME futures markets suggest that given current price levels, the Class III price may fall below the Class IV price in the first quarter of 2020 (see Chart 2). Assuming these price relationships hold, incentives for handlers to pool or not pool milk along with pool volumes and utilizations will continue to vary in the new year. ❖

Composition of Gross Payment

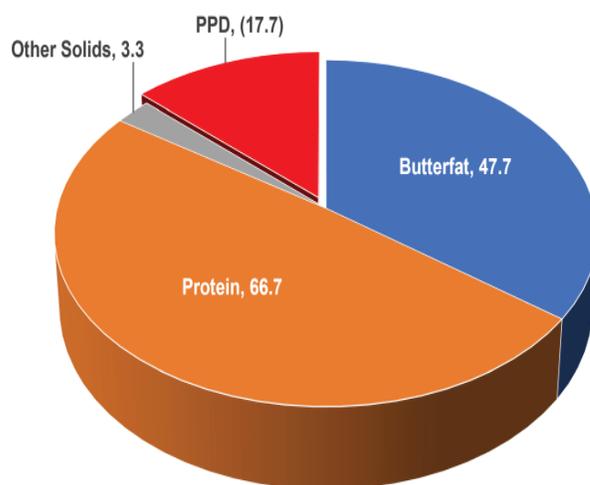
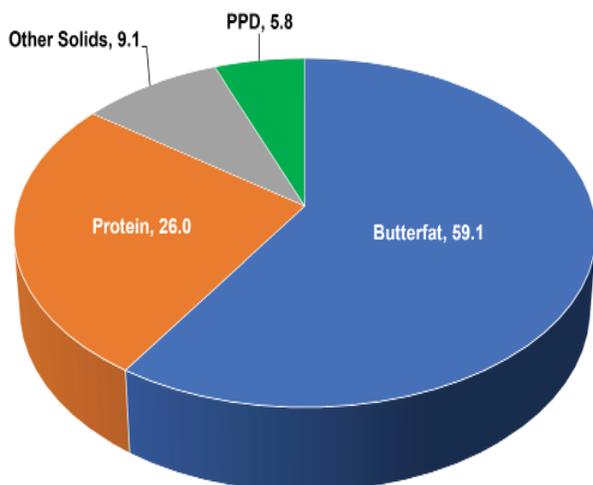
Under the California Federal Marketing Order (CFMO), producers receive a gross payment equal to the value of components in their milk – butterfat, protein, and other solids as determined by the Class III component valuation—added to the Producer Price Differential (PPD). It is significant that this component value depends on both the component prices and the tests of those components in their milk. The accompanying figure show the composition of the gross payment, excluding any other price adjustments for items such as promotion, to a hypothetical dairy farmer producing two million pounds of milk in November 2018 and November 2019 with component tests at the pool average. Notably, protein value as a percentage of total gross payment more than doubled, from 26 percent in November 2018 to 66.7 percent in November 2019, while butterfat’s percentage of total gross payment decreased more than 11 percentage points, from 59 percent to 47.7 percent. The value of other solids as a percentage of total gross payment fell almost 6 percentage points, from 9.1 percent to 3.3 percent. These changes in payment composition can be attributed to a dramatic year-over-year change in component pricing – the protein price nearly tripled from \$1.3419 to \$3.9118

per pound. The respective pie charts illustrate the shift in the main contributor to producer payment: from butterfat in November 2018 to protein in November 2019. The Federal Orders report component prices monthly using product-price formulas.

The Statistical Uniform Price (SUP), or blend price, at pool average tests also experienced a strong increase from November 2018 to November 2019, rising nearly two dollars, from \$17.17 per hundredweight to \$19.12 per hundredweight, a year-over-year growth exceeding 11 percent. It is important to note that this increase in blend price occurred despite a \$4.39 decrease in the PPD. In November 2019, the component valuation of all pooled milk, partly driven by a strong protein price, exceeds the classified value (determined by class prices) of pooled milk; therefore, a negative PPD must be applied to balance the component value in producer milk with the classified value. In contrast, in November 2018, the value of components in producer milk was less than the classified value of the pool, so a positive PPD was applied to balance the values. The respective pie charts illustrate the positive PPD in November 2018 and the negative PPD in November 2019 as percentages of gross payment. ❖

**Composition of Gross Payment*, November 2018 and 2019
At Pool Average Tests**

	November 2018				November 2019			
	Test percent	Price per pound	Gross dollars	Contribution percent	Test percent	Price per pound	Gross dollars	Contribution percent
Butterfat	4.00	2.5385	\$203,080.00	59.1	3.93	2.3195	\$182,312.70	47.7
Protein	3.32	1.3419	\$89,102.16	26.0	3.26	3.9118	\$255,049.36	66.7
Other Solids	5.74	0.2714	\$31,156.72	9.1	5.74	0.1112	\$12,765.76	3.3
PPD		1.00	\$20,000.00	5.8		(3.39)	(\$67,800.00)	(17.7)
Total gross payment			\$343,338.88	100.0			\$382,327.82	100.0
Gross price per cwt			\$17.17				\$19.12	



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



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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	376,389,664	\$12.21	\$45,957,177.97	
Butterfat	9,223,814	2.4165	22,289,346.53	
Less: Location Adjustment to Handlers			(790,107.61)	\$67,456,416.90
Class II— Butterfat	11,893,019	2.3265	27,669,108.74	
Nonfat Solids	10,559,621	1.0022	10,582,852.16	38,251,960.90
Class III— Butterfat	1,294,819	2.3195	3,003,332.69	
Protein	1,086,360	3.9118	4,249,623.06	
Other Solids	1,819,278	0.1112	202,303.70	7,455,259.45
Class IV— Butterfat	42,757,776	2.3195	99,176,661.45	
Nonfat Solids	100,285,967	0.9763	97,909,189.58	197,085,851.03
Total Classified Value			<i>Total value of milk in the pool</i>	\$310,249,488.28
Add: Overage—All Classes				15,360.28
Inventory Reclassification—All Classes				43,250.32
Other Source Receipts	72,851			0.00
Total Pool Value				\$310,308,098.88
Less: Value of Producer Butterfat	65,169,428	2.3195	(151,160,488.25)	
Value of Producer Protein	53,988,680	3.9118	(211,192,918.41)	
Value of Producer Other Solids	95,032,725	0.1112	(10,567,639.01)	(372,921,045.67)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	(\$62,612,946.79)
Add: Location Adjustment to Producers				6,297,275.11
One-half Unobligated Balance—Producer Settlement Fund				843,172.76
Less: Producer Settlement Fund—Reserve				(684,211.03)
Total Pool Milk & PPD Value	1,656,540,115			(\$56,156,709.95)
Producer Price Differential		\$(3.39)		
Statistical Uniform Price		\$17.06		

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

Plants Not Included in Producer Price Differential Computation

A public announcement is hereby made pursuant to §1000.25(c)(5) of the General Provisions of Federal Milk Marketing orders that Dean Foods, Dallas, Texas, failed to make required payments into the October producer-settlement fund. Therefore, its milk receipts and utilizations were not included for the days of November 1-11, 2019, in the November producer price differential computation. On November 12, Dean Foods filed for Chapter 11 bankruptcy and will be referred to in the Federal Milk Marketing Order Program from that date forward as Dean Foods (DIP), a new pooled handler. Milk receipts and utilization for the period November 12-30, 2019, by Dean Foods (DIP) were included in the computations.