



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

Cary Hunter, Interim Market Administrator

November 2018— *Pre-Bulletin* Federal Order No. 51

To contact the California Marketing Area office:

Tel.: (530) 662-2037 — Fax: (844) 206-7024

Mailing Address: 221 W Court St, Ste. 3B, Woodland, CA 95695-2983

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

Federal Order Pool Starts Next Month

Next month will mark the start of calculating and announcing the statistical uniform price (SUP) under the California Federal Milk Marketing Order (CAFMMO). The timing of this procedure is that plants or handlers pooling milk on the CAFMMO will submit a report of *milk receipts and utilization* for the month of **November**, to the Market Administrator on or before December 9. Market Administrator personnel verify reported transactions between handlers to allocate milk receipts and assign classifications based on how the milk was reported as being utilized. From this pooling process the SUP is calculated, which will be announced no later than the 14th of the month. It is expected that approximately 40 plants and cooperative handlers in California and neighboring states will be pooling milk during this first pool. Market Administrator staff have been working with plants, cooperatives, and producers to explain the new CAFMMO pool reporting dates and procedures to assure that this first Federal order pool goes smoothly.

What to Expect

As was discussed in occasions leading to the implementation of the CAFMMO, minimum class and component prices in Order 51 will be derived from the same survey based market prices that are utilized in the ten other Federal Milk Marketing Orders. If you are interested in the details of Federal order pricing refer to "**Module 6-Price Formulas**" on the CAFMMO website homepage <https://www.cafmmo.com> under the critical information heading. The *Markets and Federal Order Pricing* article on page 3 provides more details on this topic.

The per-hundredweight SUP announcement in December will be issued at standard component tests (3.5% butterfat, 2.99% true protein, 5.69% other solids). This means if your farm milk component tests are above (or below) the standard tests, your milk check will differ from the announced SUP price reflecting the component value of your farm's milk. The SUP for the CAFMMO will be announced at the Los Angeles County \$2.10 differential zone with lower SUP values for those zones with lower differentials. While Federal order minimum SUP prices represent the minimum price that must be paid to non-member producers, cooperatives are free to pay their member-producers under their own payment plans, which may differ from the announced CAFMMO blend price.

(continued on page 3)

Upcoming Dates:

Class and Component Prices:

- November 21 – Announcement of Class I Price and Advanced Pricing Factors for December 2018
- December 5 – Announcement of Class and Component Prices for November 2018
- December 19 – Announcement of Class I Price and Advanced Pricing Factors for January 2019
- January 3, 2019 – Announcement of Class and Component Prices for December 2018

Producer Prices Announced:

- On or Before December 14, 2018 – Statistical Uniform Price Announcement for November 2018

Pool Information:

- Each month pool and price data will appear on the front page of this *Bulletin*. In addition, price announcements and other pool statistical information will be available on the website: www.cafmmo.com and via email. To be added to the email list to receive price announcements and/or other information releases at the time of issue, please send your email information and request to: market.admin@cafmmo.com

California Federal Order Kick Off With Industry

On November 7, USDA Marketing and Regulatory Programs' Under Secretary, Greg Ibach, spoke to over 60 dairy farmers, government officials, and industry stakeholders at Rancho Teresita Dairy in California's Central Valley to mark the official kick off of the [California Federal Milk Marketing Order](#). California represents nearly 20 percent of the nation's milk production and its entering the Federal system is a historic milestone for the dairy industry. The California dairy industry had been regulated by the California state system since the 1930s, and the industry petitioned USDA to join the Federal system with a 2015 proposal. The implementation of the California Federal Milk Marketing Order concludes a 4-year rule-making process. Its success is a testament to the strong collaboration between the dairy industry and USDA and shows how Dairy Program continues to facilitate the efficient marketing of milk and dairy products each and every day. ❖



From left to right: Cary Hunter (Interim Market Administrator for CAFMMO), Don Shipplehouse (California Department of Food and Agriculture), Tom Wegner (Land O' Lakes), Cornell Kaspergen (LOL), Greg Ibach (USDA-MRP Under Secretary), Dana Coale (Dairy Program Deputy Administrator and Federal Grain Inspection Service Acting DA), Rachel Kaldor (Dairy Institute of CA), Joaquin Contente (California Dairy Campaign), George Mertens (Dairy Farmers of America), and Rob Vandenheuvel (California Dairies, Inc.)

Markets and Federal Order Pricing

Under Federal orders, producers are paid based on their respective volumes and components in their milk. The per pound price that producers receive for their milk components is the same as the Class III per pound value for butterfat, protein, and other solids. Since the pool is made up of four classes of milk, it is the value differences in the pool generated by the Classes I, II, and IV that is returned to producers via the Producer Price Differential (PPD). A given month's PPD at the base zone of the order, is the statistical uniform price (SUP) minus the Class III price shown on a hundredweight (cwt) basis.

Component prices (butterfat, protein, nonfat solids, and other solids) are derived through Federal order price formulas from prices of Cheddar cheese (500-pound barrels and 40-pound blocks), grade AA butter, nonfat dry milk, and dry whey. These product prices are from the Agricultural Marketing Service's *National Dairy Product Sales Report* (NDPSR) and are the result of a survey of eligible dairy plants' price and sales volume data for the various dairy products.

Class prices and the PPD level are therefore related to the levels of dairy product prices, the relative price levels between these dairy products and, in the case of the PPD, the class utilization of milk, during the month. Following market prices of dairy products can help understand the relationship between class prices and the PPD.

Current Market Dynamic

The charts on page 3 present NDPSR and Class III/IV prices for 2018. Cheese prices largely move the Federal Order Class III price. Nonfat dry milk largely moves the Class IV price. Though not shown on the chart, the Class IV price also is impacted by the butter price. Through October, the butter price has averaged about 9 cents below last year's record high level. Cheese and Class III prices are declining off a 2018 high for the year in September. Nonfat dry milk and Class IV prices increased slightly. Generally, the Chicago Mercantile Exchange (CME) prices track fairly closely with NDPSR prices with some lag between the two price series. This relationship allows the use of CME prices and futures prices to make some approximation of where Federal order prices may go. November 13 CME futures data indicate that the downward trend in cheese and Class III prices may continue into November, and increase somewhat in December.

As the class prices change relative to each other based on product market movements, the value of the Federal Order pool is impacted. Handler decisions regarding the pooling of milk based on expected price relationships also impact utilizations and, in *(continued on page 3)*

Markets *(continued from page 2)*

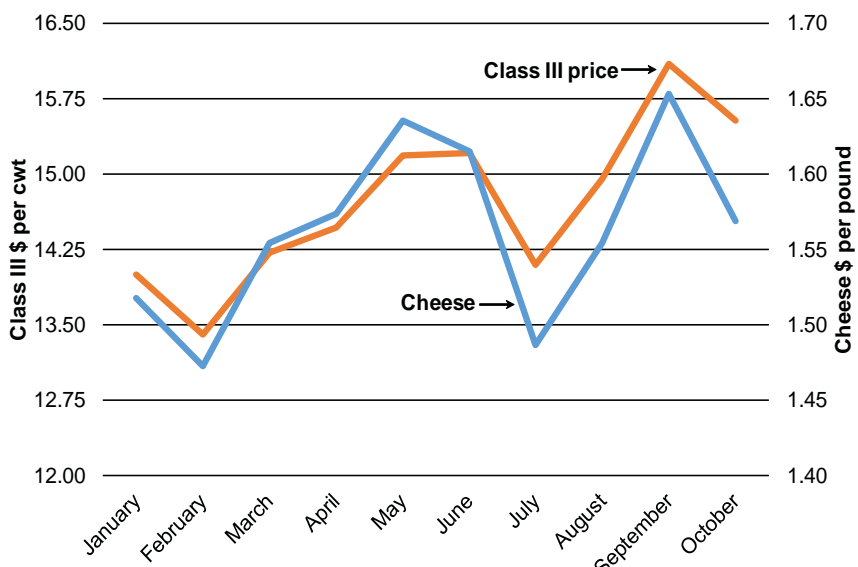
turn, further impact utilizations and resulting PPDs. Given current class price projections and estimations of milk utilizations by class, it would appear that the PPD for the first CAFMMO will be positive in all zones.

PPD Values

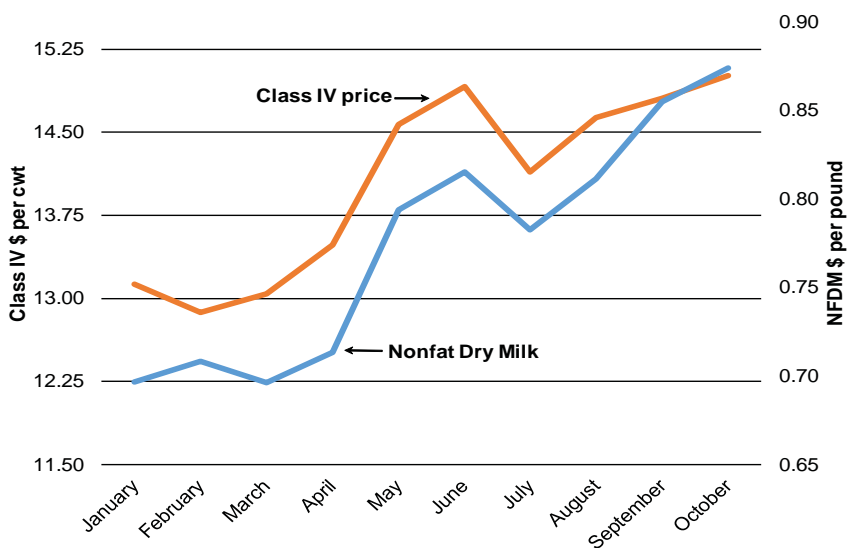
When the average value of the milk used in Class I, Class II, and Class IV is less than the value of milk for Class III, the PPD will be negative. This can happen for a variety of reasons, ranging from the timing of the price release dates (Class I is announced about six weeks before Class III) to wide spreads in the dairy commodity prices that are used to compute class prices. In essence, all the value of the Federal pool was paid to producers through their components, with no value remaining to be paid in the form of PPD.

The financial incentive for a handler to depool milk occurs when the Class II, III, or IV price is above the SUP for a given month. By depooling milk that is utilized in those classes, the handler may avoid paying the difference between the respective class price and the SUP as a pool obligation. There are many factors that are taken into consideration when making a pooling decision, such as the ability to repool milk on the market given order provisions or expected future class prices levels. ❖

NDPSR Cheese and Federal Order Class III Pricing, 2018



NDPSR Nonfat Dry Milk and Federal Order Class IV Pricing, 2018



Federal Order Pool *(continued from page 1)*

Pool Milk

Under a Federal Order, milk that is utilized as Class I is in general the only utilization that is required by regulation to be pooled on the order. For the state of California, less than 20 percent of the milk production is utilized for Class I fluid purposes. Other producer milk that gets utilized in manufacturing classes (Class II, III, IV) is pooled on a Federal Order at the option of the pooling handler. The decision to pool manufacturing milk will be made by handlers and is dependent upon overall class price levels, the alignment of class prices, and the overall utilization by class of all milk on the order. During the first months of

the CAFMMO pool there may be some juggling of pool milk volumes as handlers adjust to Federal Order prices and provisions and make pooling decisions that make the most economic sense for their organization. If a handler elects to remove milk from the order or “depool” a volume of producer milk, there are restrictions within the order regulations that place limitations of the volume of milk that can be “re-pooled.” During the first three months of the CAFMMO, pooling restrictions have been waived in order to easily allow all handlers who wish to be part of the federal order pool to do so. For more details on pooling refer to “**Module 7-Pooling Decision**” on the website. ❖



MARKET ADMINISTRATOR
221 W COURT ST, STE. 3B
WOODLAND, CA 95695-2983

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*

The table below represents the *Computation of Producer Price Differential and Statistical Uniform Price* that will appear each month on this page. Zeros represent where actual values in the future will appear. This summary will show how the monthly statistical uniform price is derived based on the pounds of milk in the pool, utilization by class, and aggregated producer milk pounds and components.

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	000,000,000	\$0.00	00,000,000.00	
Butterfat	00,000,000	0.0000	00,000,000.00	
Less: Location Adjustment to Handlers			(0,000,000.00)	00,000,000.00
Class II— Butterfat	00,000,000	0.0000	00,000,000.00	
Nonfat Solids	00,000,000	0.0000	00,000,000.00	00,000,000.00
Class III— Butterfat	00,000,000	0.0000	00,000,000.00	
Protein	00,000,000	0.0000	00,000,000.00	
Other Solids	00,000,000	0.0000	0,000,000.00	000,000,000.00
Class IV— Butterfat	00,000,000	0.0000	00,000,000.00	
Nonfat Solids	00,000,000	0.0000	00,000,000.00	000,000,000.00
Total Classified Value				\$000,000,000.00
Add: Overage—All Classes				000,000.00
Inventory Reclassification—All Classes				000,000.00
Other Source Receipts	000,000 Pounds			00,000.00
Total Pool Value				\$000,000,000.00
Less: Value of Producer Butterfat	000,000,000	0.0000	(000,000,000.00)	
Value of Producer Protein	000,000,000	0.0000	(000,000,000.00)	
Value of Producer Other Solids	000,000,000	0.0000	(00,000,000.00)	(000,000,000.00)
Total PPD Value Before Adjustments				\$00,000,000.00
Add: Location Adjustment to Producers				00,000,000.00
One-half Unobligated Balance—Producer Settlement Fund				0,000,000.00
Less: Producer Settlement Fund—Reserve				(0,000,000.00)
Total Pool Milk & PPD Value	0,000,000,000 Producer pounds			\$000,000.00
Producer Price Differential		\$0.00		
Statistical Uniform Price		\$00.00		

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