



The Market Administrator's

BULLETIN

CALIFORNIA MARKETING AREA

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March Pool Price Calculation

The March 2020 Statistical Uniform Price (SUP) for the California Marketing Area was announced at \$16.02 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 (3.87 percent butterfat, 3.19 percent protein, and 5.77 percent other solids), the March SUP would be \$17.32 per cwt. March's SUP at average component tests is lower than February's by \$1.01 per cwt, largely due to the declining prices and component tests. March's Producer Price Differential (PPD) at Los Angeles County was $-\$.23$ per cwt, a decrease of 11 cents compared to the previous month's PPD of $-\$.12$.

Product Prices Effect

Along with nearly every sector of the U.S. and world economies, COVID-19 has wreaked havoc on dairy markets and prices. Spot prices for dairy commodities traded on the Chicago Mercantile Exchange (CME) dropped by roughly 25 percent from the beginning to the end of March, with declines continuing in April. On the other hand, the commodity prices that determine Federal Order prices — the average monthly product prices of the National Dairy Product Sales Report (NDPSR) — did not reflect the price drops of the CME, declining by an average of 4 percent between the February and March class and component price announcements. This is primarily due to a nearly two-week lag in the reporting and calculating of the NDPSR survey prices compared to the CME trading prices, which are reported daily.

NDPSR survey prices though the first weeks of April are beginning to reflect the COVID-19-induced price drops that have been expressed in CME prices, and, unfortunately, April's Federal Order class and component prices will likely reflect the collapse in dairy markets. See *Market Update* article on Page 2 for updated price forecast.

COVID-19 Impacts

As has been widely reported in trade publications, COVID-19 has prompted an unprecedented drop and rapid changes in dairy product demand. Schools, which typically account for about 8 percent of fluid (COVID-19 Impacts continued on page 2)

Pool Summary

- A total of 873 producers were pooled with an average daily delivery per producer of 75,243 pounds, a decrease of just over one percent from February.
- Pooled milk receipts totaled 2.036 billion pounds, an increase of about 1.5 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 23.6 percent of total pooled milk receipts, up 2.3 percentage points from February.
- The average butterfat test of producer receipts was 3.87 percent, down .04 percentage points from February.
- The average true protein test of producer receipts was 3.19 percent.
- The average other solids test of producer receipts was 5.77 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	23.6	481,010,968
Class II	4.8	97,641,325
Class III	1.5	30,206,403
Class IV	70.1	1,427,439,441
Total Pooled Milk		2,036,298,137

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	2.8424	1.6303
Butterfat Price	1.9177	2.5461
Other Solids Price	0.1810	0.2200

Class Price Factors

	2020	2019
	\$/cwt	
Class I	19.56	18.08
Class II	16.75	16.61
Class III	16.25	15.04
Class IV	14.87	15.71

Pool Price Calculation: COVID-19 Impacts *(continued from page 1)*

milk sales in California, are now closed, as are other major dairy buyers, including many foodservice establishments, hotels, casinos, and cruise ships. To add to this falling demand, trade has been disrupted across the globe.

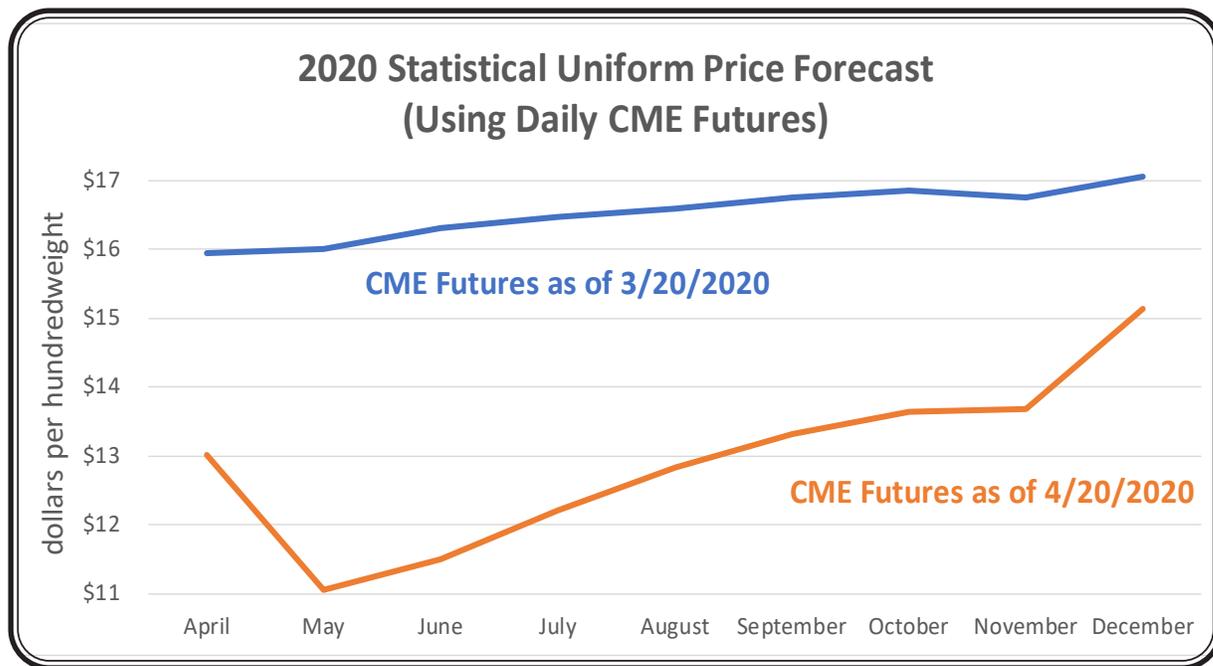
In terms of impacting the Order 51 March milk pool, the “panic buying” of Class I fluid milk during the last weeks of the month resulted in a 13 percent jump, on an average daily basis, in the volume of milk utilized in Class I during March above the February average daily volume. The volume utilized in Class IV surged to the highest ever under the Order; handlers resorted to turning a sudden excess of milk into storable powder due to COVID-19-induced drops in demand for products used primarily in the food service sector leaving few alternative uses for milk. In addition, handlers were responding to seasonally larger milk volumes that needed to be balanced as well as Class price alignments, making it favorable to pool Class IV milk. As the impact of COVID-19 is fully realized in future Federal Order prices along with shifts in consumer demand, expect additional shifts in Class utilization volumes in the months ahead. ❖

Market Update: Looking to the Future

Chicago Mercantile Exchange (CME) futures prices at the beginning of 2020 pointed toward a year of solid prices for the dairy industry. Futures for Class III and IV milk averaged \$17.47 and \$17.98 per hundredweight (cwt), respectively, from April 2020 through the end of the year. Today, the dairy industry is facing one of the most difficult price outlooks in its recent history. CME futures prices for Class III and IV milk have declined drastically since the COVID-19 virus took hold of the market, falling to average prices of \$14.13 and \$12.19 per cwt, respectively, for the remainder of the year (April – December). CME futures have fluctuated dramatically on a day-to-day basis due to the level of uncertainty in the marketplace brought on by the COVID-19 virus. Since March 2, 2020, the first trading day in March, average CME futures (April-December) for Class III have declined over 16 percent, while Class IV futures have declined by nearly 25 percent.

Although Federal Order (FO) prices are calculated independently of CME futures, FO prices tend to trend together with CME futures. Therefore, CME Class III and IV futures offer a reasonable proxy of future FO prices or at least a window into which direction they might be headed.

The accompanying figure illustrates the forecasted Statistical Uniform Price (SUP) using Class III and IV CME futures from March 2nd. This dataset yields a forecasted SUP of \$16-\$17 per cwt throughout 2020. Using the



same model, but with CME futures from April 20th, a month into California’s statewide shelter-in-place order, the futures market decline is reflected in the SUP forecast. In the seven-week span from March 2nd to April 20th, the average forecasted SUP for the remainder of the year fell by over 22 percent. As shown

in the figure, the forecasted SUP bottoms out in May, just above \$11 per cwt, and then proceeds to steadily increase into December, ending around the \$15 per cwt mark. CME futures will continue to exhibit volatility until more stability is felt in the marketplace. The long-term impacts of this crisis are still unknown, and price expectations will continue to vary daily as the situation evolves. ❖

Farm Milk Dumped Due to COVID-19

Restrictions implemented due to COVID-19 resulted in unprecedented shifts in demand for certain dairy products during the last weeks of March. With some bottling plants seeking additional milk supplies and other manufacturing plants facing significant drops in demand, particularly if the plant was producing product for the food service sector. In some cases, plant capacity could not be found and excess milk was dumped at a farm or used as animal feed at a calf ranch. In consideration of the disruptions caused by COVID-19, all Federal Orders will temporarily allow for milk dumped at a farm and not delivered to a plant to be included as pooled milk provided that the dump is properly recorded and reported. In order for dumped farm milk to qualify as pooled milk, the producer must be pooled on the Order in the prior six months.

While Federal Orders do not have the ability to compensate for the full cost of dumped milk, pooling such milk allows the handler to receive a credit for the difference between the month's lowest Class price and the monthly Statistical Uniform Price at the volume pooled, as adjusted to the differential zone where the milk was dumped.

This allowance will initially be in place for the period March – May. Other Federal Order flexibilities implemented during this challenging time can be found on the California Marketing Area website www.cafmmo.com. ❖

USDA Announces Coronavirus Food Assistance Program

On April 17, 2020, the U.S. Department of Agriculture (USDA) launched the Coronavirus Food Assistance Program (CFAP), which will assist farmers, ranchers, and consumers in response to the COVID-19 national emergency. This \$19 billion immediate relief program is designed to support farmers and ranchers, maintain the integrity of the U.S. food supply chain, and ensure that every American continues to receive and have access to the food they need.

CFAP will use the funding and authorities provided in the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Families First Coronavirus Response Act (FFCRA), and other USDA existing authorities. The program includes two major elements to achieve these goals:

1. **Direct Support to Farmers and Ranchers:** The program will provide \$16 billion in direct support based on actual losses for agricultural producers where prices and market supply chains have been impacted and will assist producers with additional adjustment and marketing costs resulting from lost demand and short-term oversupply for the 2020 marketing year caused by COVID-19.
2. **USDA Purchase and Distribution:** USDA will partner with regional and local distributors, whose workforce has been significantly impacted by the closure of many restaurants, hotels, and other food service entities, to purchase \$3 billion in fresh produce, dairy, and meat. We will begin with the procurement of an estimated \$100 million per month in fresh fruits and vegetables, \$100 million per month in a variety of dairy products, and \$100 million per month in meat products. The distributors and wholesalers will then provide a pre-approved box of fresh produce, dairy, and meat products to food banks, community and faith based organizations, and other non-profits serving Americans in need. On top of these targeted programs USDA will utilize other available funding sources to purchase and distribute food to those in need.

USDA has up to an additional \$873.3 million available in Section 32 funding to purchase a variety of agricultural products for distribution to food banks. The use of these funds will be determined by industry requests, USDA agricultural market analysis, and food bank needs.

The FFCRA and CARES Act provided an at least \$850 million for food bank administrative costs and USDA food purchases, of which a minimum of \$600 million will be designated for food purchases. The use of these funds will be determined by food bank need and product availability.

Further details regarding eligibility, rates, and other implementation will be released at a later date. For more information on USDA's work during the COVID-19 pandemic, please visit www.usda.gov/coronavirus. ❖



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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	469,565,226	\$12.92	\$60,667,827.20	
Butterfat	11,445,742	2.0267	23,197,085.31	
Less: Location Adjustment to Handlers			(918,144.09)	\$82,946,768.42
Class II— Butterfat	12,650,697	1.9247	24,348,796.50	
Nonfat Solids	7,941,582	1.1533	9,159,026.52	33,507,823.02
Class III— Butterfat	1,956,300	1.9177	3,751,596.52	
Protein	993,434	2.8424	2,823,736.81	
Other Solids	1,699,377	0.1810	307,587.26	6,882,920.59
Class IV— Butterfat	52,801,478	1.9177	101,257,394.37	
Nonfat Solids	128,073,759	0.9387	120,222,837.58	221,480,231.95
Total Classified Value			<i>Total value of milk in the pool</i>	\$344,817,743.98
Add: Overage—All Classes				4,518.65
Inventory Reclassification—All Classes				27,394.75
Other Source Receipts	96,391			2,930.29
Total Pool Value				\$344,852,587.67
Less: Value of Producer Butterfat	78,854,217	1.9177	(151,218,731.96)	
Value of Producer Protein	65,022,249	2.8424	(184,819,240.56)	
Value of Producer Other Solids	117,576,172	0.1810	(21,281,287.16)	(357,319,259.68)
Total PPD Value Before Adjustments			<i>Total Class III value of producer components</i>	(12,466,672.01)
Add: Location Adjustment to Producers				7,684,381.94
One-half Unobligated Balance—Producer Settlement Fund				920,942.58
Less: Producer Settlement Fund—Reserve				(822,359.85)
Total Pool Milk & PPD Value	2,036,394,528			(4,683,707.34)
Producer Price Differential		\$(0.23)	<i>Value from which PPD per hundredweight is calculated</i>	
Statistical Uniform Price		\$16.02		

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