

The Market Administrator's

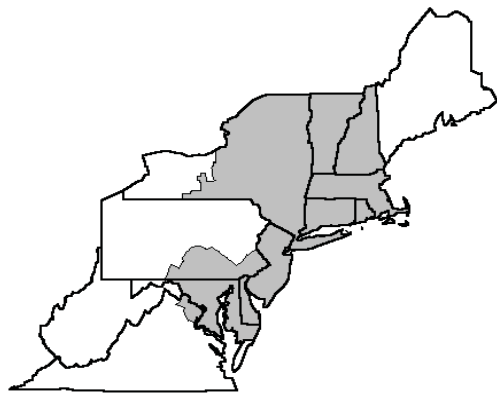
BULLETIN

NORTHEAST MARKETING AREA

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September 2015

Federal Order No. 1



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September Pool Price Calculation

The September 2015 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.68 per hundredweight for milk delivered to plants located in Suffolk County, Massachusetts (Boston), the pricing point for the Northeast Order. The statistical uniform price 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, the SUP would be \$18.31 per hundredweight. The September statistical uniform price was 78 cents per hundredweight above the August price. The September producer price differential (PPD) at Suffolk County was \$1.86 per hundredweight, an increase of \$1.23 per hundredweight from last month.

Product Prices Effect

Product prices for butter and nonfat dry milk rose while cheese and dry whey declined. Butter jumped 40 cents per pound resulting in a nearly 50-cent per pound increase in the butterfat component price. Cheese declined only 2 cents per pound but the decrease resulted in a nearly 60-cent drop in the protein component price. Nonfat dry milk's 6-cent per pound increase equaled a similar rise in the nonfat solids price; dry whey's 7-cent drop equated to a 7-cent per pound decline in the other solids price.

All class prices increased from the previous month, except the Class III price due to the cheese price decline. With the increase in both butter and nonfat dry milk prices, the Class IV price jumped \$2.18 per hundredweight from August.

Class I sales were below the same month last year, but above last month, and both Classes II and IV were above last year. The increases in the prices of these classes, primarily Classes II and IV, resulted in a higher SUP and larger PPD. As mentioned in recent *Bulletins*, milk delivered to plants in all zones typically considered in the Northeast milkshed should receive a positive PPD for the next few months.

Highs and Lows

The pool volume for September was the highest ever for the month, while the Class I volume was the lowest ever for the month. The Class II volume was the third largest for the month of September. The Class IV volume dropped significantly from August, but was the highest ever for the month of September. ❖

Pool Summary

- A total of 11,850 producers were pooled under the Order with an average daily delivery per producer of 5,970 pounds.
- Pooled milk receipts totaled 2.122 billion pounds, a decrease of 0.8 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.2 percent of total milk receipts, an increase of 3.0 percentage points from August.
- The average butterfat test of producer receipts was 3.70 percent.
- The average true protein test of producer receipts was 3.03 percent.
- The average other solids test of producer receipts was 5.73 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	35.2	747,840,587
Class II	25.4	539,235,834
Class III	25.6	542,052,989
Class IV	13.8	293,161,728
Total Pooled Milk		2,122,291,138

Producer Component Prices

	2015	2014
	\$/lb	
Protein Price	1.9801	3.4991
Butterfat Price	2.7531	3.2467
Other Solids Price	0.0465	0.4876

Class Price Factors

	2015	2014
	\$/cwt	
Class I	19.59	26.88
Class II	15.36	26.11
Class III	15.82	24.60
Class IV	15.08	22.58

Market Situation

Using Chicago Mercantile Exchange (CME) Class III and Class IV milk futures prices settled on October 12, the uniform price for 2015 projects to average \$17.14 per hundredweight (cwt) at the Boston, MA, differential zone for the year. CME prices track fairly close to National Dairy Product Sales Report (NDPSR) prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head. These projections predict a peak for the year of \$17.90 per cwt in the month of November. The 2015 uniform price is presented in Chart 1. The same chart also depicts the uniform price as projected based on May information and October 12, 2015, data. Using current data, the producer price differential still projects to remain stronger and positive in all differential zones in the typical Northeast Order milkshed. A stronger butter price has lifted the Class IV price to a level much closer to the Class III price, allowing for a larger spread between the Class III price and the uniform price.

Market Dynamics

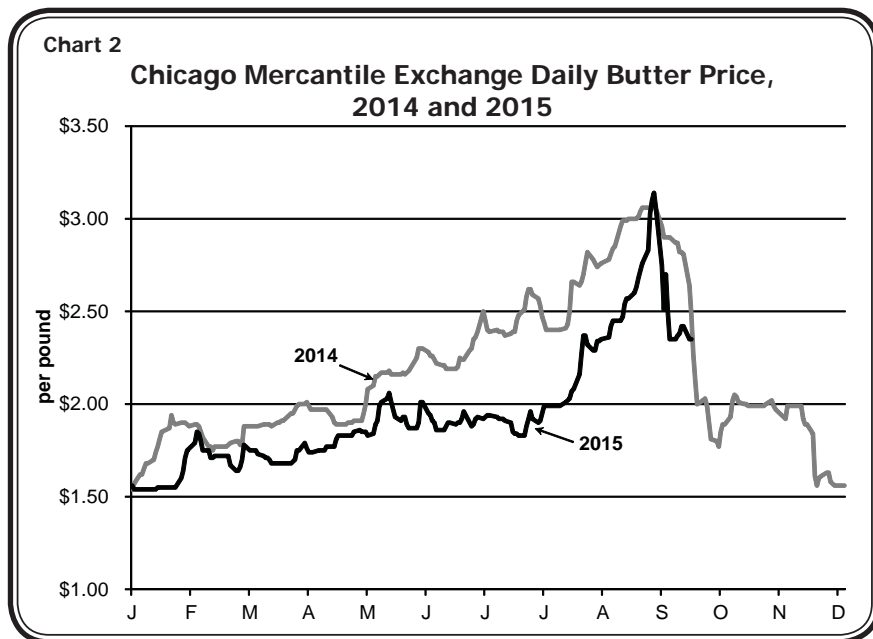
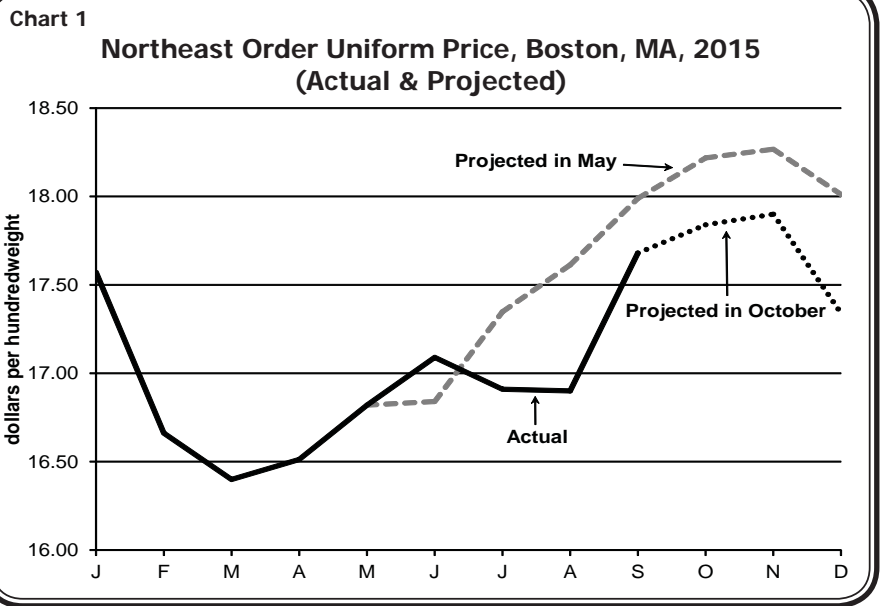
Many of the same drivers that commonly have been referenced recently are still influencing dairy markets. Diminished exports, largely due to Russia's ban on imports and a slowdown in imports by China, are forcing a large global milk supply to compete for alternative destinations. The result is lower international prices for dairy commodities, especially for dry products, exerting particular downward pressure on nonfat dry milk prices here in the United States. The August NDPSR nonfat dry milk (NDFM) price of

\$0.8007 per pound is similar to NDFM prices that existed in 2009 and 2003-2004. Monthly cheese prices this year have been fairly steady, averaging \$1.64 per pound since January, with monthly averages plus or minus 10 cents.

Though exports have diminished, the U.S. domestic market still consumes roughly 85 percent of U.S. milk production, on a solids basis. Domestic demand indicators, such as the U.S. Consumer Confidence Index, have been strong, increasing in September to 103 (1985=100, 1985 being used as neither a peak nor trough in the business cycle). A component of the index, the Present Situation Index, reached an 8-year high. The Restaurant Performance Index remained above the 100 level, indicating industry expansion and positive expectations for the months ahead, for the 30th consecutive month. Strong domestic demand is expected to play a key role in absorbing milk production that is not exported, or that is selling at premium prices relative to international markets.

Butter Market

The CME daily butter market peaked at \$3.14 per pound on September 25, before falling briskly to the most recent \$2.35 per pound level as of October 14, a 79-cent decline (presented in Chart 2). The price movement closely resembles 2014 when the butter price fell from a September 25, 2014, peak of \$3.06 per pound to \$2.48 per pound by October 14, and then further to finish the year at \$1.56 per pound. Industry analysts and current CME futures prices do not predict the 2015 butter price to dip as low, still ending the year below the \$2.00 level, but in the \$1.80's range. ❖



Fall Shipping Percentage Decreased

Each year the minimum percentage of milk that pool supply plants and cooperative Section 1000.9 (c) handlers (any cooperative qualified by USDA with their own member-producers pooling producers and regulated as a handler on the Order) must deliver to Class I pool distributing plants increases from 10 percent during January through August and December, to 20 percent during the months of September, October, and November. This provision of the Order, Section 1001.7(c)(2), commonly referred to as the “shipping percentage”, stipulates that during the months of September through November, shipments and transfers by pool supply plants and cooperative handlers must equal not less than 20 percent of the total quantity of producer milk pooled by such handlers. The rationale behind this provision of the Order is that it helps assure that an adequate supply of milk will be available for Class I distributing plants at a time of the year when milk production typically is slowing, and Class I demand increases as schools reopen. In years past, milk supplies occasionally would be so tight during the fall months that pool handlers would request that the Market Administrator conduct an investigation to determine if it was necessary to increase the shipping percentage even higher than 20 percent to meet the needs of the Class I market. Such an additional increase has not occurred since 2001.

Percentage Reduced for Second Year

For the third year in a row, the Northeast Market Administrator has adjusted the minimum shipping percentage downward, during September through November, to 15 percent. The decision was made after reviewing Northeast Order statistical data, including total

pool volume, class utilization changes, and fluid milk sales, together with comments submitted by parties that responded to a call for comments. The reduction is limited just to the months of September, October, and November of 2015.

Rationale

The provision that allows the Market Administrator to adjust the shipping percentage to encourage needed shipments to the Class I market, also allows adjustment “to prevent uneconomic shipments.” The Class I utilization for September 2015 again set a new record low by volume and percent, with total pool volume simultaneously setting a record high. ❖

Request for Organic Hearing

On September 29, 2015, the USDA received a request from the Organic Trade Association for a national hearing to amend all Federal Milk Marketing Orders (FMMOs) regarding organic milk. Currently, certified organic milk and conventional milk are treated identically for minimum price and pooling purposes by FMMOs. The proposal does not seek to exempt organic milk from FMMOs but rather provide for an alternative, audited mechanism for organic milk handlers to meet their minimum price obligations under FMMOs.

The proposal can be found at www.ams.usda.gov/rules-regulations/moa/dairy/organic-amendment. USDA is currently considering the proposal and has 30 days from the day of receipt (or by October 29, 2015) to deny it, request more information from the proponent, or issue an Action Plan as to future action regarding this request. ❖

Pool Summary for All Federal Orders, January–September, 2014–2015

Federal Order		Total Producer Milk			Producer Price Differential#		Statistical Uniform Price#*	
Number	Name	2014	2015	Change^	2014	2015	2014	2015
		pounds			percent		dollars per hundredweight	
1	Northeast	19,392,019,423	19,628,544,598	1.2	2.13	0.91	24.86	16.95
5	Appalachian	4,195,382,536	4,220,148,143	0.6	N/A	N/A	25.98	18.42
6	Florida	2,069,639,783	2,039,735,659	(1.4)	N/A	N/A	28.10	20.81
7	Southeast	4,014,896,231	3,922,871,089	(2.3)	N/A	N/A	26.47	19.16
30	Upper Midwest	25,219,942,061	21,643,916,747	(14.2)	0.28	0.09	23.00	16.12
32	Central	11,487,888,775	10,638,544,004	(7.4)	0.67	0.07	23.40	16.10
33	Midwest	12,762,284,403	13,657,628,130	7.0	1.02	0.06	23.74	16.10
124	Pacific Northwest	6,229,097,392	4,458,702,160	(28.4)	0.61	(0.65)	23.33	15.38
126	Southwest	9,476,559,201	8,396,521,622	(11.4)	1.43	0.95	24.16	16.99
131	Arizona	3,652,357,474	3,594,143,556	(1.6)	N/A	N/A	23.88	15.80
All Market Total/Average		98,500,067,279	92,200,755,708	(6.4)	1.02	0.24	24.69	17.18

Price at designated order location.

* Price at 3.5% butterfat.

N/A = Not applicable.

^ A significant volume of milk was depooled during 2015.



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Computation of Producer Price Differential and Statistical Uniform Price*

	<u>Product Pounds</u>	<u>Price per cwt./lb.</u>	<u>Component Value</u>	<u>Total Value</u>
Class I— Skim	732,879,952	\$12.33	90,364,098.08	
Butterfat	14,960,635	2.1978	32,880,483.60	
Less: Location Adjustment to Handlers			(2,674,401.80)	\$120,570,179.88
Class II— Butterfat	29,830,652	2.7601	82,335,582.60	
Nonfat Solids	46,321,679	0.6567	30,419,446.62	112,755,029.22
Class III— Butterfat	23,341,278	2.7531	64,260,872.45	
Protein	16,340,126	1.9801	32,355,083.48	
Other Solids	30,890,426	0.0465	1,436,404.78	98,052,360.71
Class IV— Butterfat	10,458,999	2.7531	28,794,670.13	
Nonfat Solids	25,741,379	0.6266	16,129,548.14	44,924,218.27
Total Classified Value				\$376,301,788.08
Add: Overage—All Classes				17,828.23
Inventory Reclassification—All Classes				644,346.35
Other Source Receipts	314,269 Pounds			17,895.02
Total Pool Value				\$376,981,857.68
Less: Producer Component Valuations @ Class III Component Prices				(349,154,558.47)
Total PPD Value Before Adjustments				\$27,827,299.21
Add: Location Adjustment to Producers				11,745,623.95
One-half Unobligated Balance—Producer Settlement Fund				926,982.07
Less: Producer Settlement Fund—Reserve				(1,019,444.71)
Total Pool Milk & PPD Value	2,122,605,407 Producer pounds			\$39,480,460.52
Producer Price Differential		\$1.86		
Statistical Uniform Price		\$17.68		

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