

The Market Administrator's

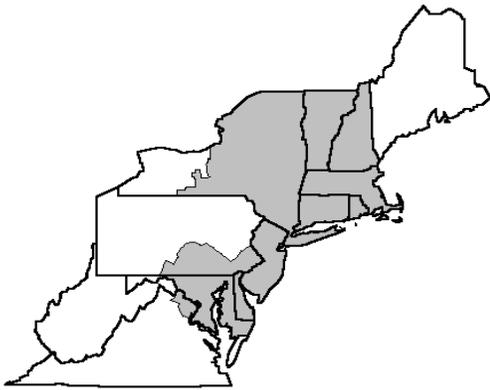
BULLETIN

NORTHEAST MARKETING AREA

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June 2020

Federal Order No. 1



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June Pool Price Calculation

The June 2020 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$15.66 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 \$16.40 per hundredweight. The June statistical uniform price was \$2.19 per hundredweight above the May price. The June producer price differential (PPD) at Suffolk County was -\$5.38 per hundredweight, a decrease of \$6.71 from the previous month.

Product Prices Effect

Prices for all commodities, except dry whey, used in federal order pricing rebounded during June. The National Dairy Product Sales Report prices for butter rose 40 cents and nonfat dry milk increased 6 cents, both on a per pound basis. Barrel cheese jumped 88 cents, and block cheese soared 95 cents to a new record high, resulting in a 92-cent increase in the monthly cheese price, again on a per pound basis. Dry whey declined about 2 cents per pound.

The commodity price changes resulted in per-pound increases of 48 cents in the butterfat price and 6 cents in the nonfat solids price. The rise in the cheese price translated to a \$2.44 per-pound increase in the protein price. The other solids price fell 2 cents per pound.

The only class price that declined from the previous month was Class I since it is calculated in advance and was derived from lower prices in May; it fell \$1.53 per hundredweight. Class II increased 69 cents; Class III jumped \$8.90; and Class IV rose \$2.23, all on a per hundredweight basis. The overall higher prices combined for a higher SUP, but because the highest class price was Class III, which was significantly higher than all the other classes, the PPD returned a negative value to balance the pool. See page 2 for more explanation on negative PPDs.

With Class III the highest of the prices, many handlers viewed this as a disadvantageous price relationship and chose to depool milk during the month.

Selected Statistics

Average daily deliveries per producer set a new record high for the month of June. The average producer butterfat test set a new June record high; the other solids test tied as a record high for the month. ❖

Pool Summary

- A large volume of milk was depooled during June that affected producer count, total pool volume, and Class I utilization percentage.
- A total of 7,811 producers were pooled under the Order with an average daily delivery per producer of 7,919 pounds.
- Pooled milk receipts totaled 1.856 billion pounds, a decrease of 16.9 percent from May on an average daily basis.
- Class I usage accounted for 34.9 percent of total milk receipts, up 5.1 percentage points from May.
- The average producer tests were as follows: butterfat - 3.80 percent, protein - 3.03 percent, other solids - 5.78 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	34.9	646,494,870
Class II	27.2	504,764,633
Class III	18.5	343,753,223
Class IV	19.4	360,617,222
Total Pooled Milk		1,855,629,948

Producer Component Prices

	2020	2019
	\$/lb	
Protein Price	4.5349	2.0046
Butterfat Price	1.8591	2.6579
Other Solids Price	0.1696	0.1702

Class Prices

	2020	2019
	\$/cwt	
Class I	14.67	20.32
Class II	12.99	17.30
Class III	21.04	16.27
Class IV	12.90	16.83

Record Price Increases Factor Into June Negative PPDs

In the seven Federal Milk Marketing Orders (FMMO) that pay producers based on milk components (butterfat, protein, and other solids) plus a producer price differential (PPD) value, the June PPD was significantly negative and, in fact, reached new lows in most of the FMMOs. This occurred when the June 2020 Class III price jumped a record \$8.90 per hundredweight from the May value.

Dairy commodity markets, which are the basis for all FMMO pricing, have registered extreme swings in price levels this year, the magnitude and rapidity not previously experienced. For example, Chicago Mercantile Exchange (CME) block and barrel cheese prices were relatively strong at the beginning of this year, with block prices above \$1.90 per pound during most of January, and barrel prices above \$1.50 per pound. Blocks even surpassed the \$2.00 per pound mark on a couple of days in January. Prices remained relatively strong until early April when they plunged dramatically. Both block and barrel prices fell as low as \$1.00 per pound in April, before skyrocketing in May. Blocks surpassed the \$2.00 per pound threshold in late May and have continued to climb to record levels, approaching \$3.00 during the second week of July. The chart below details average weekly CME prices for barrel and block since the beginning of this year.

The magnitude of these rapid variations in dairy commodity markets results in unusual, or “non-typical”, FMMO class price alignment. Although

unusual alignment of prices has occurred in the past, the magnitude of the current disparity between class prices is unprecedented. In June, the Northeast Order Class III price (\$21.04) was \$6.37 higher than the Class I price (\$14.67), at the base zone. The spread between the Class III price and the Class II (\$12.99) and Class IV (\$12.90) prices in June was \$8.05 and \$8.14, respectively, also unprecedented differences.

Producer Price Differential

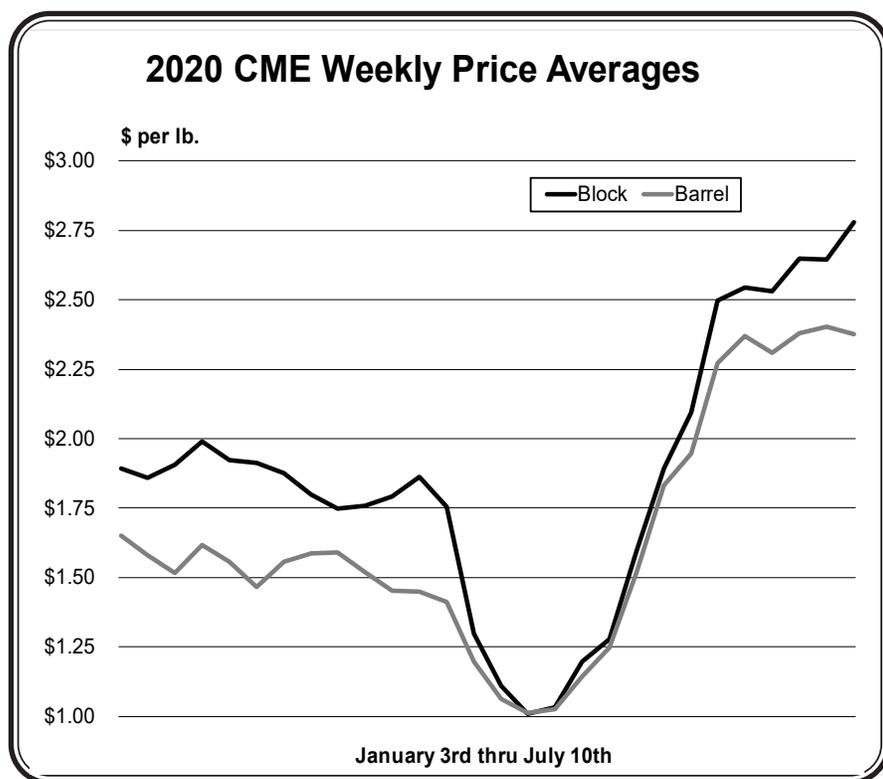
The PPD is a per hundredweight payment and is but one portion of the total revenue paid to dairy farmers marketing milk in a Federal Order that pay producers based on milk components. The butterfat, protein, and other solids in producer milk comprise the other portions of producer revenue, and these are paid on a per pound basis.

The PPD represents, on a per hundredweight basis, total dollars accumulated by the market-wide pool minus the amount paid out to producers for priced components – protein, butterfat, and other solids. Market-wide pool revenue, or the *pool classified value*, is determined by the amount of milk utilized in each class, along with the price level for each class. Class I products include fluid bottled milk, Class II products are typically described as “soft” manufactured dairy products (such as ice cream, cottage cheese, dips, fluid cream products, etc.), cheeses are the products that make up Class III, while Class IV is comprised of butter and dry milk powders.

When the total value of producer components exceeds the pool’s classified value, the result is a negative PPD since money out of the FMMO pool at producer component values plus the PPD must equal money in the pool’s classified value (pool revenue). In this measure, the calculation of a PPD can be thought of as an accounting method to “balance the books” of the monthly Federal Order pool (see illustrations on page 3).

In the fat and skim pricing orders (four Federal milk orders where the largest utilization of milk is typically Class I fluid milk products) producers are paid based on the weighted average classified use value of pooled fat in the order and the weighted average classified use value of pooled skim in the order (Class fat prices times the amount of fat utilized in each class and

(continued on page 3)



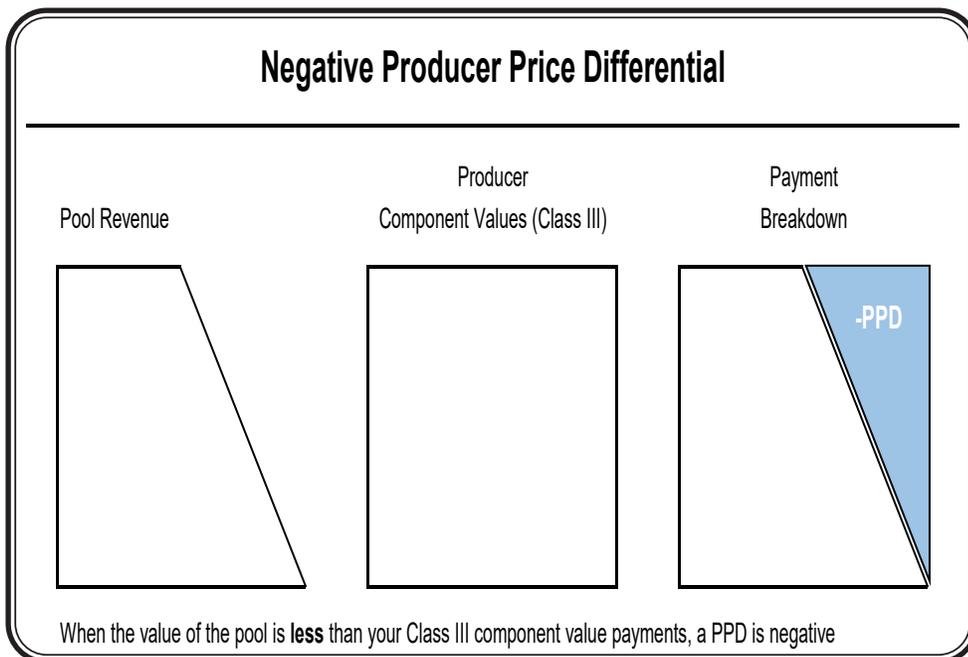
Record Price Increases (continued from page 2)

the Class skim prices times the amount of skim utilized in each class). The total sum of the values paid to producers for pooled fat and pooled skim are equal to the classified use value of the pool and there is no PPD.

Factors Behind Negative PPD

The monthly PPD value can be positive or negative depending on several factors particular to the individual order. In some orders, negative PPD values can occur on a regular basis due to the utilization of producer milk among the four classes and the differences between the class prices. The PPD payment is adjusted by location of the plant where a producer's milk is delivered, so within a specific marketing area the per hundredweight value of the PPD can range from positive at the base zone where the price is announced to negative in the more distant differential zones.

A significant short-term change in commodity prices used in the class and component price formulas can also have an impact on the PPD value, which is the case in June. In just over a one-month period, cheese prices recovered from among the lowest levels seen in recent years to the highest levels. Under the Federal Order system, Class I prices are announced in advanced of the effective month. The June 2020 Class I price was announced on May 20th using an average cheese price of \$1.1859 per pound from the weeks ending May 9th and May 16th. The June 2020 Class III price was announced on July 1st based on an average cheese price of \$2.2152 per pound, calculated from four weeks in June when cheese market prices were rising. The nonfat dry milk market has not experienced the same increase as the cheese market, so Class II and IV prices have remained low as the Class II price is set off of the Class IV price. These dynamics have resulted in the Class III component values, specifically the protein value, being very high relative to the other class values. Producers will notice the high value paid for protein in their June milk checks, when compared to what was paid out in their May milk checks. As explained above, the higher component prices result in more money paid out at the Class III component values than is available in the monthly Federal order pool and creates a negative PPD.



Only milk delivered to pool distributing plants is required to be producer milk under the Federal order system. Pool supply plants and deliveries to non-pool plants have specific qualifications that must be met to be eligible as producer milk. Those handlers typically have just Class II, Class III, or Class IV products and are not required to participate in the order's pool. Therefore, due to expected price relationships in some months, handlers may decide not to pool some of their milk receipts. In June 2020, handlers decided to not pool a significant volume of Class III milk due to its higher value. While that milk may not have been pooled, it is also important to note that the higher Class III value still exists in the marketplace.

It is expected that Class I, II, and IV prices will continue to be lower relative to the Class III price for July 2020 resulting in a negative PPD value. It is likely that multiple component pricing orders will experience some level of negative PPD values until the Class III and IV skim prices converge.

Negative PPD, but Higher SUP

A negative PPD does not necessarily result in diminished producer revenue. In fact, total producer revenue often increases when PPDs become negative. This is due to the relatively high value for components, which comprise the largest portion of producer revenue. The Statistical Uniform Price (SUP) is a better barometer of total producer revenue. The PPD in May was a positive \$1.33 while the SUP was \$13.47 per hundredweight. In June, the PPD was a negative \$5.38 but the SUP was \$15.66 per hundredweight, \$2.19 higher than in May. ❖

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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	631,322,089	\$10.33	\$65,215,571.79	
Butterfat	15,172,781	1.3432	20,380,079.44	
Less: Location Adjustment to Handlers			(2,670,633.72)	\$82,925,017.51
Class II— Butterfat	27,094,071	1.8661	50,560,245.88	
Nonfat Solids	43,720,579	0.7433	32,497,506.35	83,057,752.23
Class III— Butterfat	17,622,536	1.8591	32,762,056.71	
Protein	10,311,552	4.5349	46,761,857.15	
Other Solids	19,591,433	0.1696	3,322,707.04	82,846,620.90
Class IV— Butterfat	10,601,551	1.8591	19,709,343.49	
Nonfat Solids	32,099,176	0.7354	23,605,734.05	43,315,077.54
Total Classified Value				\$292,144,468.18
Add: Overage—All Classes				28,348.68
Inventory Reclassification—All Classes				1,986,873.35
Other Source Receipts	47,565 Pounds			0.00
Total Pool Value				\$294,159,690.21
Less: Value of Producer Butterfat	70,490,939	1.8591	(131,049,704.72)	
Value of Producer Protein	56,220,573	4.5349	(254,954,676.48)	
Value of Producer Other Solids	107,264,433	0.1696	(18,192,047.81)	(404,196,429.01)
Total PPD Value Before Adjustments				(\$110,036,738.80)
Add: Location Adjustment to Producers				10,172,585.66
One-half Unobligated Balance—Producer Settlement Fund				782,018.03
Less: Producer Settlement Fund—Reserve				(753,315.07)
Total Pool Milk & PPD Value	1,855,677,513 Producer pounds			(\$99,835,450.18)
Producer Price Differential		(\$5.38)		
Statistical Uniform Price		\$15.66		

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