

## The Market Administrator's

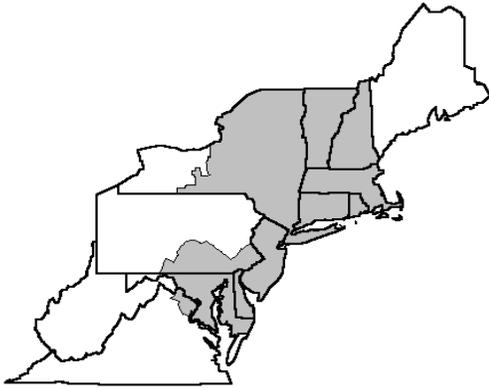
# BULLETIN

## NORTHEAST MARKETING AREA

Erik F. Rasmussen, Market Administrator

July 2013

Federal Order No. 1



To contact the Northeast Marketing Area offices:

Boston, MA: phone (617) 737-7199, e-mail address: MABoston@fedmilk1.com; Albany, NY: phone (518) 452-4410, e-mail address: MAAlbany@fedmilk1.com; Alexandria, VA: phone (703) 549-7000, e-mail address: MAAlexandria@fedmilk1.com; website address: www.fmmone.com

### July Pool Price Calculation

The July 2013 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$20.18 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 \$20.21 per hundredweight. There was little difference in the price at 3.5 percent versus the price at average pool tests due to the much lower component tests reported this month, which is typical in the summer. The July statistical uniform price was only 2 cents per hundredweight below the June price. The July producer price differential (PPD) at Suffolk County was \$2.80 per hundredweight, an increase of 62 cents per hundredweight from last month.

#### Product Prices Effect

During July, product prices for butter and cheese declined, while nonfat dry milk and dry whey rose. As reported on the National Dairy Product Sales Report, both butter and cheese dropped about 7 cents per pound. This resulted in the butterfat component price decreasing about 9 cents and the protein component price dropping nearly 12 cents per pound. The Class III price dropped 64 cents per hundredweight largely due to the lower cheese price and became the lowest of the class prices for the month. The Class I price was 2 cents lower than June; the Class II price increased 8 cents; and the Class IV price rose a slight 2 cents per hundredweight. With the prices for three out of the four classes nearly mirroring last month, the statistical uniform price was relatively unchanged. The spread between the higher class prices (I and II) versus the lower (mainly III) resulted in a higher PPD value.

#### Volume Changes

After two record-setting months, total pooled milk receipts declined, but were the third largest ever for the month of July. Contacts indicated extreme heat in the middle of the month caused production to plummet. Class I volume was higher than in June, but the lowest for July ever and the second lowest ever for the Order since its inception. The volume of milk used in Class II was slightly higher than last year, but set a new record as the highest for the month July. ❖

### Pool Summary

- A total of 12,401 producers were pooled under the Order with an average daily delivery per producer of 5,503 pounds.
- Pooled milk receipts totaled 2.115 billion pounds, a decrease of 4.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 35.5 percent of total milk receipts, an increase of 1.8 percentage points from June.
- The average butterfat test of producer receipts was 3.60 percent.
- The average true protein test of producer receipts was 2.95 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

#### Class Utilization

Pooled Milk	Percent	Pounds
Class I	35.5	751,278,030
Class II	27.4	579,811,187
Class III	26.8	565,759,062
Class IV	10.3	218,590,463
Total Pooled Milk		2,115,438,742

#### Producer Component Prices

	2013	2012
	\$/lb	
Protein Price	3.2257	3.0430
Butterfat Price	1.5693	1.6556
Other Solids Price	0.3927	0.3123

#### Class Price Factors

	2013	2012
	\$/cwt	
Class I	22.16	18.76
Class II	19.22	14.51
Class III	17.38	16.68
Class IV	18.90	14.45

## Pooled Milk vs. Milk Production

During the first 6 months of 2013, total pooled milk receipts on the Northeast Order rose 4.7 percent from the same period in 2012. Comparatively, milk production in the Northeast states has risen only 1.7 percent. All data has been adjusted for leap year in 2012.

### National Production

The accompanying map shows year-to-year changes in milk production for the first 6 months of 2013 compared to the same months in 2012 for selected states. Overall, U.S. milk production is up only 0.5 percent for the period. The top 23 states (as reported by the National Agricultural Statistics Service) in total report an increase of 0.6 percent, while the top 10 states only report total growth of 0.3 percent. Of the top producing states, only Wisconsin, New York, and Michigan have had growth above 2.0 percent. Some of the largest producing states have had declines in production such as California, New Mexico, and Texas. Idaho, which has experienced considerable growth nearly every year since 2000, reported only a slight increase.

### Pooled Receipts

Pooled milk on the Order has shown an increase over the same month from the prior year every month since October 2012. Pooling does not necessarily reflect production as movements on and off the Order occur. Total combined production in the Northeast region's

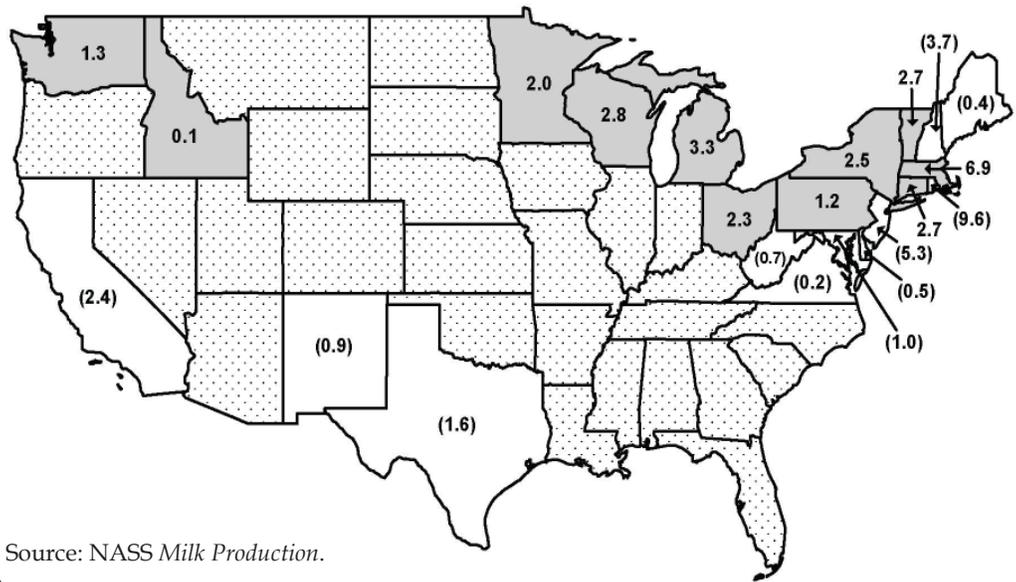
## Shipping Percentages Changed for Fall Months

In June, the Market Administrator received a request from a pool handler to lower the percentage of milk that pool supply plants and cooperative Section 1000.9(c) handlers must deliver to Class I pool distributing plants during the months of September, October, and November. It was requested that the shipping percentages specified in Section 1001.7 (c) (2) be lowered from 20 to 15 percent for the months listed.

Cited in the request were declining Class I sales, a decline in the number of Class I customers seeking to purchase milk for Class I usage, and the higher percentage causing uneconomical movements of milk that were not needed at Class I plants.

Following receipt of the request, the Market

January–June 2013 Milk Production in Selected States  
(Year-to-Year Percent Change)



## Market Situation

The July northeast uniform price remained almost identical to the June price, remaining above \$20.00 per hundredweight (cwt). Based on August 13, 2012, Chicago Mercantile Exchange (CME) futures prices for Class III and Class IV milk, the Northeast uniform price projects to average \$20.51 for the remainder of 2013 at the Boston, MA, zone, and \$0.38 per cwt higher than the same period last year. Actual and projected uniform prices compute to an annual average of \$20.06 per cwt for 2013. Actual and projected prices for April through December 2013 are shown in the accompanying table.

### Commodity Prices

CME prices on August 13 for Cheddar blocks closed at \$1.7700 per pound; butter closed at \$1.3975 per pound. Nonfat Dry Milk Grade A and Extra Grade closed at \$1.7950 and \$1.7500 per pound, respectively. CME futures prices tail off roughly 10 cents from current levels to the end of the year for cheese and nonfat dry milk. Butter futures gain about 10 cents over the same period. Historically, dairy product prices used in federal order formulas track fairly closely to CME prices, though lagged. These levels of CME prices would imply fairly stable class and uniform prices just above July through the remainder of the year.

### Feed Prices & MILC

The uniform price is projected to average the year as the second highest ever for the Northeast Order. With Class I prices well above the \$16.94 per cwt threshold for Milk Income Loss Contract Program (MILC) payments, it

is the feed adjustment in the calculation that has resulted in MILC payments for every month since January 2013. In fact, the feed-adjusted trigger price has been above \$20.00 per cwt since April 2011. During that run, the corn price averaged \$6.60 per bushel, the soybean price averaged \$13.65 per bushel, and alfalfa hay averaged \$203 per ton.

Looking ahead, feed prices are projecting to ease at least through the end of the year. CME Corn futures on August 13, 2013, average \$4.52 per bushel from September through December, with December prices 36 percent below June. Soybean futures average \$12.39 for the same period, finishing the year 18.5 percent below June.

Milk and feed prices would indicate that a final MILC payment can be expected for July of an estimated \$0.08 per cwt. At this time, the status of the MILC program after September 2013 is unknown as farm bill negotiations continue. Including actual and projected uniform prices and MILC payments, producers may average \$20.32 per cwt for their milk for the year.

### Some Uncertainty in the Mix

USDA's August *Crop Production and World Agricultural Supply and Demand Estimate* reports included corn and soybean production estimates lower than expected. Though the estimated corn crop of 13.763 billion bushels would still set a record high, some analysts believe the corn price could trend to around \$5.00 per bushel.

If milk prices hold and feed prices decline, producers can expect improved margins. With improved margins may come increased milk production. ❖

**Estimated Prices, 2013 (Actual in Bold)**

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
<b>CBOT Futures-based Estimate (August 13 data)</b>										
Corn (per bushel)	<b>\$6.97</b>	<b>\$6.97</b>	<b>\$6.97</b>	\$6.83	\$5.69	<b>\$4.55</b>	\$4.53	\$4.50	<b>\$4.47</b>	\$6.05
Soybean (per bushel)	<b>\$14.40</b>	<b>\$14.90</b>	<b>\$15.10</b>	\$15.40	<b>\$13.59</b>	<b>\$12.57</b>	\$12.42	<b>\$12.27</b>	\$12.30	\$13.87
Alfalfa hay (per ton)	<b>\$215</b>	<b>\$221</b>	<b>\$220</b>	\$209	\$205	\$202	\$200	\$200	\$200	\$211
Feed-adjusted MILC Trigger Price (\$/cwt)	<b>\$22.46</b>	<b>\$22.66</b>	<b>\$22.67</b>	\$22.34	\$20.93	\$19.65	\$19.56	\$19.52	\$19.50	\$21.43
<b>CME Futures-based Estimates (August 13 data)</b>										
Class I (\$/cwt) (Boston zone)	<b>20.91</b>	<b>21.01</b>	<b>22.18</b>	<b>22.16</b>	<b>22.13</b>	22.40	22.65	22.75	22.25	\$21.93
Uniform Price (\$/cwt) (Boston zone)	<b>19.50</b>	<b>19.78</b>	<b>20.20</b>	<b>20.18</b>	20.50	20.68	20.87	20.60	19.90	\$20.06
PPD (\$/cwt) (Boston zone)	<b>1.91</b>	<b>1.26</b>	<b>2.18</b>	<b>2.80</b>	2.39	2.73	2.99	3.21	2.96	\$2.38
Value Added from Feed Adjustor* (\$/cwt)	<b>\$0.70</b>	<b>\$0.74</b>	<b>\$0.22</b>	\$0.08	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.26
Total MILC Payment (\$/cwt)	<b>\$0.70</b>	<b>\$0.74</b>	<b>\$0.22</b>	\$0.08	\$0.00	\$0.00	N/A	N/A	N/A	\$0.26
Uniform Price + MILC (\$/cwt) Boston zone)	<b>\$20.20</b>	<b>\$20.52</b>	<b>\$20.42</b>	\$20.26	\$20.50	\$20.68	\$20.87	\$20.60	\$19.90	\$20.32
Class II (\$/cwt)	<b>18.73</b>	<b>18.43</b>	<b>19.14</b>	<b>19.22</b>	19.85	20.10	20.20	19.70	19.00	\$19.16
Class III (\$/cwt)	<b>17.59</b>	<b>18.52</b>	<b>18.02</b>	<b>17.38</b>	18.11	17.95	17.88	17.39	16.94	\$17.68
Class IV (\$/cwt)	<b>18.10</b>	<b>18.89</b>	<b>18.88</b>	<b>18.90</b>	19.15	19.40	19.50	19.00	18.30	\$18.60

Note: Corn & soybean prices based on CBOT prices as settled on day indicated. Months in between contract months are extrapolated from surrounding months assuming directional trend. CBOT Contract months shown in orange. Class I price is estimated using a higher of CME Class III and Class IV futures prices as settled on the day indicated. Uniform price estimates based on utilizations predicted as of November 2012. All prices are per hundredweight except where indicated otherwise.

\* Difference in value from the MILC program with vs. without the feed cost adjustor. ((Feed-adjusted MILC Trigger Price minus \$16.94)\* 45 percent) when the Class I prices is under \$16.94.

N/A = not applicable—continuation of program uncertain.



**MARKET ADMINISTRATOR**  
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**Albany, NY 12203-7303**

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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	736,536,572	\$16.75	123,369,875.81	
Butterfat	14,741,458	1.7128	25,249,169.26	
Less: Location Adjustment to Handlers			(2,502,520.25)	\$146,116,525.01
Class II— Butterfat	30,343,286	1.5763	47,830,121.68	
Nonfat Solids	49,445,366	1.5778	78,014,898.47	125,845,020.15
Class III— Butterfat	21,966,350	1.5693	34,471,793.05	
Protein	16,722,550	3.2257	53,941,929.53	
Other Solids	32,268,688	0.3927	12,671,913.81	101,085,636.39
Class IV— Butterfat	9,062,853	1.5693	14,222,335.21	
Nonfat Solids	18,832,154	1.5438	29,073,079.37	43,295,414.58
<b>Total Classified Value</b>				<b>\$416,342,596.13</b>
Add: Overage—All Classes				64,208.07
Inventory Reclassification—All Classes				(207,630.06)
Other Source Receipts	492,321 Pounds			19,388.41
<b>Total Pool Value</b>				<b>\$416,218,562.55</b>
Less: Producer Component Valuations @ Class III Component Prices				(368,339,702.57)
<b>Total PPD Value Before Adjustments</b>				<b>\$47,878,859.98</b>
Add: Location Adjustment to Producers				11,233,619.98
One-half Unobligated Balance—Producer Settlement Fund				1,050,784.70
Less: Producer Settlement Fund—Reserve				(917,194.97)
<b>Total Pool Milk &amp; PPD Value</b>	2,115,931,063 Producer pounds			<b>\$59,246,069.69</b>
Producer Price Differential		<b>\$2.80</b>		
Statistical Uniform Price		<b>\$20.18</b>		

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