

The Market Administrator's

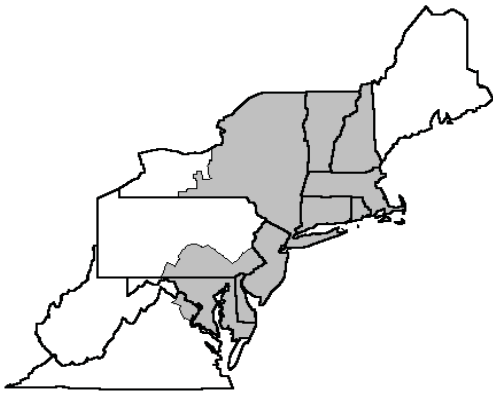
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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June Pool Price Calculation

The June 2017 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$17.53 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 \$18.28 per hundredweight. The June statistical uniform price was \$1.02 per hundredweight above the May price. The June producer price differential (PPD) at Suffolk County was \$1.09 per hundredweight, an increase of 15 cents per hundredweight from last month.

Product Prices Effect

All commodity product prices increased from the previous month except dry whey. Cheese increased 9 cents, butter jumped 24 cents, and nonfat dry milk rose 4 cents, all on a per pound basis. The dry whey price decreased about 2 cents. These changes resulted in a 29-cent jump in the butterfat price, a 4-cent increase in the nonfat solids price, and a nearly 2-cent decrease in the other solids price. Because of the significant rise in the butterfat price, which is a factor in the protein price formula, the protein component price decline about 2 cents. The average butterfat price for the January-June 2017 period is the highest on record for federal order pricing since order reform in 2000, while the January-June 2017 average protein component price is the lowest in 14 years.

All class prices increased. The Class I price increased 11 cents, Class II jumped \$1.31, Class III rose 87 cents, and Class IV was up \$1.40, per hundredweight, respectively. The higher prices caused a widening of the spread between the highest and lowest class prices and resulted in both a higher SUP and PPD.

Highlights

The total volume of producer milk receipts set a new record high for the month of June, as did the daily deliveries per producer (DDP). Similar to May, the Class I volume in June surpassed the previous year. Both the Class II and Class IV volumes for June were the second highest ever for the month. The average producer butterfat and protein tests set new record highs for June. ❖

Pool Summary

- A total of 10,947 producers were pooled under the Order with an average daily delivery per producer of 6,913 pounds.
- Pooled milk receipts totaled 2.27 billion pounds, a decrease of 3.6 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 30.7 percent of total milk receipts, unchanged from May.
- The average butterfat test of producer receipts was 3.74 percent.
- The average true protein test of producer receipts was 3.04 percent.
- The average other solids test of producer receipts was 5.74 percent. ❖

| Pooled Milk | Percent | Pounds |
|-------------------|---------|---------------|
| Class I | 30.7 | 696,553,807 |
| Class II | 24.9 | 565,456,035 |
| Class III | 26.5 | 601,481,375 |
| Class IV | 17.9 | 406,660,798 |
| Total Pooled Milk | | 2,270,152,015 |

Producer Component Prices

| | 2017 | 2016 |
|--------------------|--------|--------|
| | \$/lb | |
| Protein Price | 1.7545 | 1.4807 |
| Butterfat Price | 2.7066 | 2.4109 |
| Other Solids Price | 0.3014 | 0.0628 |

Class Price Factors

| | 2017 | 2016 |
|-----------|--------|-------|
| | \$/cwt | |
| Class I | 18.56 | 16.39 |
| Class II | 16.15 | 14.12 |
| Class III | 16.44 | 13.22 |
| Class IV | 15.89 | 13.77 |

Contribution to Producer Price by Components

The statistical uniform price (SUP) varies each month based on the respective average component tests, prices of each component, utilization of producer milk by class, and the value of the producer price differential (PPD). The accompanying charts show the proportion components contributed to for the weighted average SUP for the month of June for the years 2007, 2012, 2016, and 2017.

Butterfat and Protein

Proportions vary due to a multitude of factors. As the chart shows, depending on the combination of a component's price and test, the proportion changes. For example, even though the protein tests were lower in 2007 and 2012, the considerably high protein prices during those months contributed to a greater portion of the SUP than in 2016 and 2017. In contrast, the combination of higher

butterfat tests and prices in 2016 and 2017 resulted in higher butterfat proportion of the SUP in those months.

Other Solids and PPD

Butterfat and protein tend to have the largest proportions of the overall value. Depending on the month and its respective price, other solids may contribute the smallest proportion. In the examples shown, the PPD contributed the least value in three out of four of the months. The percentage that the PPD contributed varies and its proportion is not only a reflection of a higher overall price, but is impacted by the utilization of milk in the pool as well as the amount of difference between the respective class prices and the SUP. As the charts show, a higher PPD is not directly correlated with a higher SUP. ❖

Contribution to Total Gross Payment*, June

| | 2007 | | | | 2012 | | | |
|----------------------------|-----------------|--------------------|------------------|-------------------------|-----------------|--------------------|------------------|-------------------------|
| | Test percent | Price per pound | Gross dollars | Contribution percent | Test percent | Price per pound | Gross dollars | Contribution percent |
| Butterfat | 3.58 | 1.6457 | \$5,891.61 | 28.1 | 3.61 | 1.4866 | \$5,366.63 | 32.0 |
| True Protein | 2.99 | 3.7059 | \$11,080.64 | 52.9 | 2.99 | 2.8952 | \$8,656.65 | 51.6 |
| Other Solids | 5.71 | 0.5831 | \$3,329.50 | 15.9 | 5.77 | 0.3113 | \$1,796.20 | 10.7 |
| PPD | | 0.63 | \$630.00 | 3.0 | | 0.95 | \$950.00 | 5.7 |
| Total gross payment | | | \$20,931.75 | | | | \$16,769.48 | |
| Gross price per cwt | | | \$20.94 | | | | \$16.76 | |

| | 2016 | | | | 2017 | | | |
|----------------------------|-----------------|--------------------|------------------|-------------------------|-----------------|--------------------|------------------|-------------------------|
| | Test percent | Price per pound | Gross dollars | Contribution percent | Test percent | Price per pound | Gross dollars | Contribution percent |
| Butterfat | 3.68 | 2.4109 | \$8,872.11 | 57.3 | 3.74 | 2.7066 | \$10,122.68 | 55.4 |
| True Protein | 3.01 | 1.4807 | \$4,456.91 | 28.8 | 3.04 | 1.7545 | \$5,333.68 | 29.2 |
| Other Solids | 5.76 | 0.0628 | \$361.73 | 2.3 | 5.74 | 0.3014 | \$1,730.04 | 9.5 |
| PPD | | 1.79 | \$1,790.00 | 11.6 | | 1.09 | \$1,090.00 | 6.0 |
| Total gross payment | | | \$15,480.75 | | | | \$18,276.40 | |
| Gross price per cwt | | | \$15.49 | | | | \$18.28 | |

*For a hypothetical farm producing 100,000 pounds of milk at pool average component tests.

Market Situation

The Statistical Uniform price (SUP) at the Boston, MA, zone has averaged \$17.28 per hundredweight (cwt) for the January through June period of this year. Using CME Class III and Class IV milk futures prices settled on July 13, the SUP for 2017 projects to average \$17.81 per cwt for the year, averaging \$18.34 per cwt over the remaining six months of the year. Current projections suggest a SUP that is about \$1.00 per cwt higher for the final 4 months of the year than the June SUP. Projected prices are presented in the table on page 3.

The chart on page 3 presents daily spot commodity prices on the Chicago Mercantile Exchange (CME) since the beginning of 2017. CME prices track fairly close to

National Dairy Product Sales Report prices, so the use of CME futures prices can be a reasonable estimate of where those prices are expected to head. After four and half months of fairly steady, though slightly declining, butter prices that averaged \$2.15 per pound, the price jumped in mid May and has been supported above \$2.50 per pound since June 12. CME butter futures remain between \$2.59 and \$2.64 per pound through November of this year. CME Cheese futures are settling between \$1.55 per pound in July to just above \$1.73 per pound in November.

Sustained strength in the butter price is largely viewed as a result of continuing new consumer perspectives (continued on page 3)

Market *(continued from page 2)*

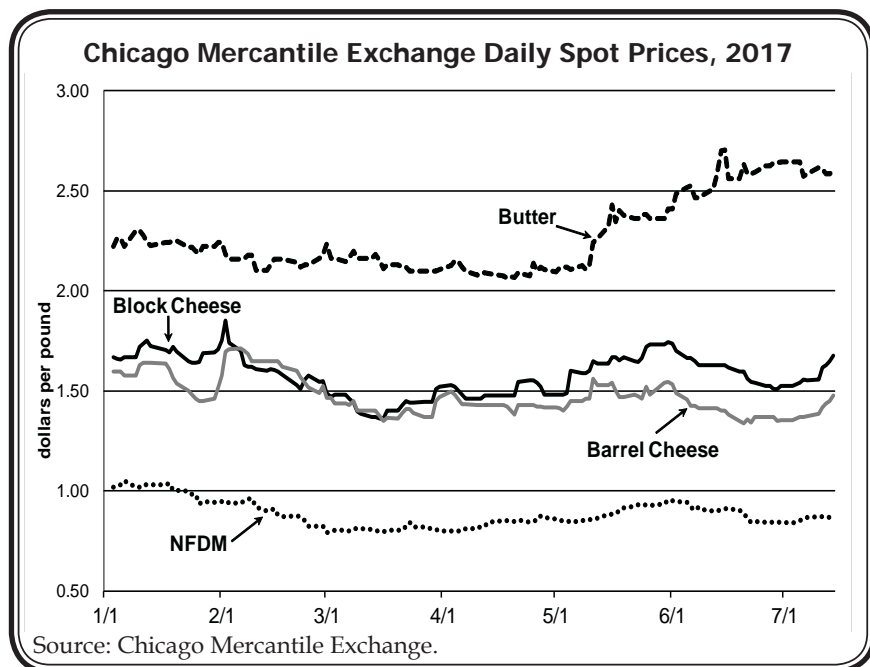
regarding butter. The higher prices are seen as largely demand driven and analysts predict butter prices to remain firm. International forces continue to further support butter prices. The combination of falling milk output in key producing countries and adverse weather

contributed to sending the international butter price to a record high in June, according to the UN Food and Agricultural Organization. Dairy Strategists at Rabobank predict butter prices will come back, but it may take months and not likely to “original levels.”

Actual/Estimated Uniform Prices, June–December, 2017

| | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Annual Average |
|---|-------|-------|-------|-------|-------|-------|-------|----------------|
| CME Futures-based Estimates (July 13 data) | | | | | | | | |
| Uniform Price (\$/cwt) (Boston zone) | 17.53 | 17.68 | 18.08 | 18.43 | 18.66 | 18.68 | 18.49 | \$17.81 |
| PPD (\$/cwt) (Boston zone) | 1.09 | 2.09 | 1.53 | 1.49 | 1.57 | 1.64 | 1.66 | \$1.42 |

Note: Uniform price estimates based on utilizations predicted as of May 2017. All prices are per hundredweight except where indicated otherwise.



Milk Production

United States milk production for the top-23 milk producing states in May was 1.8 percent higher than previous year levels. New York milk production increased 2.3 percent over the previous year, an increase surpassed by 8 other top-23 milk producing states. This is the first month since October 2015, that New York’s year-over-year growth was under 3 percent. Pennsylvania was up 2.1 percent and Vermont was 0.8 percent higher. Regionally, the Northeast is still experiencing strong milk production through the spring flush months, contributing to record-breaking Northeast Order pool volume, though the current June pool volume was only about level with last June. This may be indicative of slower production growth, which could help ease the strains on challenged Northeast manufacturing capacity going forward. ❖

Pool Summary for All Federal Orders, January–June, 2016–2017

| Federal Order Number | Federal Order Name | Total Producer Milk | | | Producer Price Differential# | | Statistical Uniform Price#* | |
|--------------------------|--------------------|-----------------------|-----------------------|------------|------------------------------|-------------|-----------------------------|--------------|
| | | 2016 | 2017 | Change^ | 2016 | 2017 | 2016 | 2017 |
| | | pounds | | | dollars per hundredweight | | | |
| 1 | Northeast | 13,597,809,126 | 13,952,736,030 | 2.6 | 1.56 | 1.17 | 15.04 | 17.29 |
| 5 | Appalachian | 2,879,849,082 | 2,870,735,082 | (0.3) | N/A | N/A | 16.21 | 18.67 |
| 6 | Florida | 1,392,656,618 | 1,323,351,463 | (5.0) | N/A | N/A | 18.36 | 20.79 |
| 7 | Southeast | 2,836,437,086 | 2,893,462,584 | 2.0 | N/A | N/A | 16.58 | 18.88 |
| 30 | Upper Midwest | 18,876,520,153 | 16,008,292,102 | (15.2) | 0.21 | 0.15 | 13.68 | 16.26 |
| 32 | Central | 8,360,249,502 | 8,192,539,529 | (2.0) | 0.48 | 0.19 | 13.96 | 16.30 |
| 33 | Mideast | 10,291,090,215 | 10,562,597,144 | 2.6 | 0.68 | 0.33 | 14.16 | 16.45 |
| 124 | Pacific Northwest | 4,164,600,271 | 3,633,361,269 | (12.8) | 0.34 | 0.00 | 13.82 | 16.12 |
| 126 | Southwest | 7,304,822,873 | 6,726,456,326 | (7.9) | 1.35 | 0.98 | 14.83 | 17.09 |
| 131 | Arizona | 2,678,727,622 | 2,632,181,167 | (1.7) | N/A | N/A | 14.06 | 16.26 |
| All Market Total/Average | | 72,382,762,548 | 68,795,712,696 | (5.0) | 0.77 | 0.47 | 15.07 | 17.41 |

Price at designated order location. * Price at 3.5% butterfat. N/A = Not applicable. ^ Adjusted for leap year in 2016.

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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 | 681,822,782 | \$10.59 | 72,205,032.61 | |
| Butterfat | 14,731,025 | 2.3817 | 35,084,882.24 | |
| Less: Location Adjustment to Handlers | | | (2,638,357.97) | \$104,651,556.86 |
| Class II— Butterfat | 32,731,865 | 2.7136 | 88,821,188.83 | |
| Nonfat Solids | 48,540,921 | 0.7656 | 37,162,929.12 | 125,984,117.95 |
| Class III— Butterfat | 25,168,329 | 2.7066 | 68,120,599.27 | |
| Protein | 18,267,218 | 1.7545 | 32,049,833.99 | |
| Other Solids | 34,394,178 | 0.3014 | 10,366,405.27 | 110,536,838.53 |
| Class IV— Butterfat | 12,351,021 | 2.7066 | 33,429,273.45 | |
| Nonfat Solids | 35,958,489 | 0.7384 | 26,551,748.27 | 59,981,021.72 |
| Total Classified Value | | | | \$401,153,535.06 |
| Add: Overage—All Classes | | | | 48,286.24 |
| Inventory Reclassification—All Classes | | | | 762,277.22 |
| Other Source Receipts | 157,570 Pounds | | | 4,858.41 |
| Total Pool Value | | | | \$401,968,956.93 |
| Less: Producer Component Valuations @ Class III Component Prices | | | | (390,205,945.70) |
| Total PPD Value Before Adjustments | | | | \$11,763,011.23 |
| Add: Location Adjustment to Producers | | | | 12,928,036.39 |
| One-half Unobligated Balance—Producer Settlement Fund | | | | 1,135,839.37 |
| Less: Producer Settlement Fund—Reserve | | | | (1,080,512.53) |
| Total Pool Milk & PPD Value | 2,270,309,585 Producer pounds | | | \$24,746,374.46 |
| Producer Price Differential | | \$1.09 | | |
| Statistical Uniform Price | | \$17.53 | | |

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