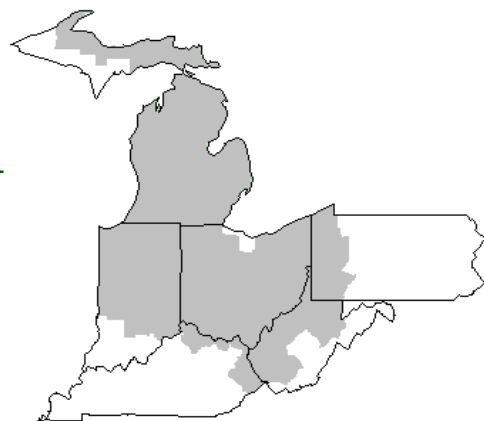


Mideast Market Administrator's Bulletin



Federal Order No. 33

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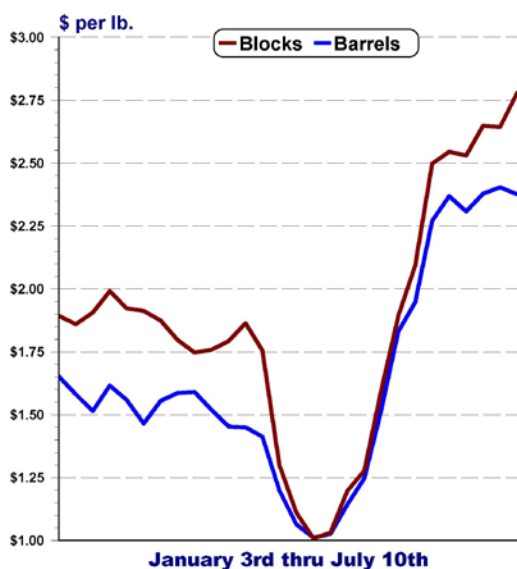
JULY 2020

Record Price Increases A Factor Behind 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, 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 graph below details average weekly CME prices for barrel and block since the beginning of this year.

2020 CME Weekly Price Averages



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 Mideast Order Class III price (\$21.04) was \$7.62 higher than the Class I price (\$13.42), 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 Mideast Order also includes a per hundredweight price adjustment based on somatic cell levels in producer milk.

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.

(Continued on Page 3)

June 2020 - Pool Summary

Classification of Producer Milk

	Pounds	Percent
Class I	522,603,275	40.4
Class II	333,927,437	25.8
Class III	126,783,372	9.8
Class IV	309,751,470	24.0
Total	1,293,065,554	100.0

Producer Prices

Producer Price Differential	\$ (7.05) / cwt
Butterfat Price	1.8591 / lb
Protein Price	4.5349 / lb
Other Solids Price	0.1696 / lb
Somatic Cell Adjustment Rate	0.00111 / cwt
Statistical Uniform Price	13.99 / cwt

ANNOUNCEMENT OF PRODUCER PRICES

Federal Order No. 33

June 2020

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

	POUNDS	BUTTERFAT	SKIM / PROTEIN	NONFAT SOLIDS	OTHER SOLIDS	PRICE	VALUE
Class I Skim Value			511,275,315			\$9.08 / cwt	\$ 46,423,798.59
Class I Butterfat		11,327,960				1.3307 / lb	15,074,116.39
Class I Location Differential	522,603,275						(263,538.14)
Class II SNF Value				28,604,892		0.7433 / lb	21,262,016.24
Class II Butterfat		22,736,492				1.8661 / lb	42,428,567.76
Class III Protein Value			3,836,186			4.6515 / lb	17,396,719.88
Class III Other Solids Value					7,217,348	4.5349 / lb	1,224,062.20
Class III Butterfat		5,807,296				0.1696 / lb	10,796,344.00
Class IV SNF Value				27,710,323		0.7354 / lb	20,378,171.54
Class IV Butterfat		8,181,467				1.8591 / lb	15,210,165.32
Somatic Cell Value II / III / IV							<u>1,455,026.42</u>
TOTAL PRODUCER MILK VALUE	1,293,065,554	48,053,215	39,603,389		74,792,101		\$ 191,385,450.20
Overages						\$ 6,659.30	
Beginning Inventory & OS Charges						409,970.75	
TOTAL ADJUSTMENTS							\$ 416,630.05
TOTAL HANDLER OBLIGATIONS							\$ 191,802,080.25
Total Protein Value			39,603,389 lbs	@	\$ 4.5349		\$(179,597,408.76)
Total Other Solids Value			74,792,101 lbs	@	0.1696		(12,684,740.34)
Butterfat Value			48,053,215 lbs	@	1.8591		(89,335,732.03)
Total Somatic Cell Values							<u>(2,440,524.07)</u>
TOTALS							\$ (92,256,324.95)
Net Producer Location Adjustments							\$ 933,892.19
1/2 Unobligated Balance Producer Settlement Fund							<u>799,000.00</u>
Total - Divided by Total Pounds			1,293,065,554 lbs			(7.0006840)	\$ (90,523,432.76)
Rate of Cash Reserve						<u>(0.0493160)</u>	<u>(637,688.21)</u>
PRODUCER PRICE DIFFERENTIAL at Cuyahoga County, OH ¹			1,293,065,554			\$(7.05) / cwt	\$ (91,161,120.97)

COMPONENT PRICES

June

COMPUTATION OF UNIFORM PRICE

June

	<u>2020</u>	<u>2019</u>		<u>2020</u>	<u>2019</u>
Butterfat Price	\$1.8591 / lb	\$2.6579 / lb	Class III Price - 3.5% BF	\$21.04	\$16.27
Protein Price	4.5349 / lb	2.0046 / lb	Producer Price Differential*	<u>(7.05)</u>	<u>1.13</u>
Other Solids Price	0.1696 / lb	0.1702 / lb	Statistical Uniform Price	\$13.99	\$17.40
Somatic Cell Adjustment Rate	0.00111 / cwt	0.00085 / cwt			
Nonfat Solids Price ²	0.7354 / lb	0.8665 / lb			

CLASS PRICES

June

CLASSIFICATION OF PRODUCER MILK

June

	<u>2020</u>	<u>2019</u>		<u>2020</u>	<u>2019</u>
Class I*	\$13.42	\$19.07	Class I	<i>Product lbs.</i> 522,603,275	<i>Product lbs.</i> 497,486,817
Class II	12.99	17.30	Class II	333,927,437	286,965,678
Class III	21.04	16.27	Class III	126,783,372	646,702,863
Class IV	12.90	16.83	Class IV	<u>309,751,470</u>	<u>260,399,820</u>
			Total	1,293,065,554	1,691,555,178

¹ Subject to Location Adjustment.² Producers are not paid on this component.**ORDER 33 MARKET SUMMARY**

The Producer Price Differential for the Mideast Marketing Area for June 2020 was \$(7.05) and the Statistical Uniform Price was \$13.99 for the month. The Statistical Uniform Price is \$1.26 higher than last month, and is \$3.41 lower than June 2019.

The Producer Butterfat Price of \$1.8591 per pound increased \$0.4835 from May and is down \$0.7988 from a year ago. The Protein Price of \$4.5349 is up \$2.4431 from last month and is up \$2.5303 from June 2019. The Other Solids Price in June was \$0.1696 per pound, a decrease from last month's price of \$0.1882 and \$0.0006 lower than last June. The Somatic Cell Adjustment rate for June was \$0.00111 per cwt.

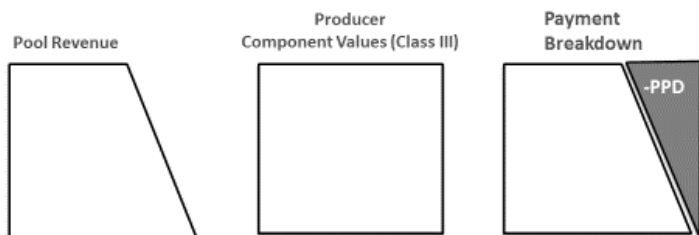
June producer receipts of 1.29 billion pounds were 27.6 percent lower than May and 23.6 percent lower than June 2019 production of 1.69 billion pounds. Producer milk allocated to Class I accounted for 40.4 percent of the total producer milk in June 2020, higher than the 31.2 percent in May, and higher than the 29.4 percent in June 2019. A total of 3,602 producers were pooled on the Mideast Order compared to 4,201 producers pooled in June 2019.

The market average content of producer milk was as follows: Butterfat 3.72%; Protein 3.06%; Other Solids 5.78% and Nonfat Solids 8.84%.

(continued from Front Page)

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.

Negative Producer Price Differential



When the value of the pool is less than your Class III component value payments, a PPD is negative

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 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 and turn 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 first two weeks in May. 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.

Bulletin WebPage Edition
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Featured this month are:

- Producer Milk Classification
- Statistical Uniform Price
- Class and Component Prices
- National Product Prices

Weighted Averages - Butterfat, Protein, Other Solids, Somatic Cell Count by State Federal Order No. 33

State	May 2020						May 2019				
	Number of Producers	Pounds of Milk (000)	-----Weighted Averages -----				Pounds of Milk (000)	Butterfat	Protein	Other Solids	SCC (000)
Michigan	968	931,706	3.80	3.13	5.81	150	952,751	3.79	3.13	5.81	156
Ohio	1,370	424,223	3.89	3.13	5.75	171	416,999	3.82	3.10	5.74	174
Indiana	666	238,127	3.84	3.13	5.82	165	248,488	3.75	3.08	5.78	172
New York	150	88,481	3.91	3.12	5.88	162	92,419	3.91	3.11	5.71	171
Pennsylvania	642	83,401	3.88	3.06	5.68	194	85,548	3.87	3.08	5.74	208
Other	142	19,780	3.82	3.07	5.77	211	27,180	3.73	3.04	5.78	189
Total/Average *	3,938	1,785,718	3.83	3.13	5.79	160	1,823,385	3.80	3.11	5.78	166

* Totals may not add due to rounding. Data provided on a one month delay basis and includes only milk from these states pooled on the Mideast order.



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**FEDERAL ORDER DATA
June 2020**

Marketing Area ^{1/}	Producer Milk		Class I	Producer	Statistical
	Total (000)	Class I (000)	Percent %	Price Differential (per cwt.)	Uniform Price (per cwt.)
FO 1 Northeast - (Boston)	1,855,630	646,495	34.9	\$(5.38)	\$15.66
FO 5 Appalachian - (Charlotte)	388,937	322,838	83.0	^{2/}	15.27
FO 6 Florida - (Tampa)	190,307	160,348	84.3	^{2/}	16.83
FO 7 Southeast - (Atlanta)	365,386	255,976	70.1	^{2/}	15.38
FO 30 Upper Midwest - (Chicago)	1,086,940	211,884	19.5	(3.81)	17.23
FO 32 Central - (Kansas City)	833,901	359,049	43.1	(7.51)	13.53
FO 33 Mideast - (Cleveland)	1,293,066	522,603	40.1	(7.05)	13.99
FO 51 California (Los Angeles)	1,711,090	418,101	24.4	(7.91)	13.13
FO 124 Pacific Northwest - (Seattle)	614,412	135,430	22.0	(5.87)	15.17
FO 126 Southwest - (Dallas)	813,839	333,315	41.0	(7.62)	13.42
FO 131 Arizona - (Phoenix)	375,814	95,585	26.2	^{2/}	15.50

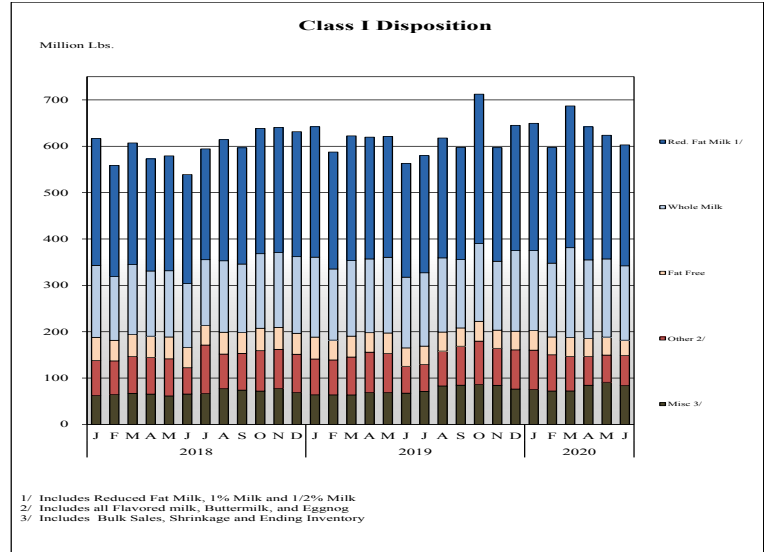
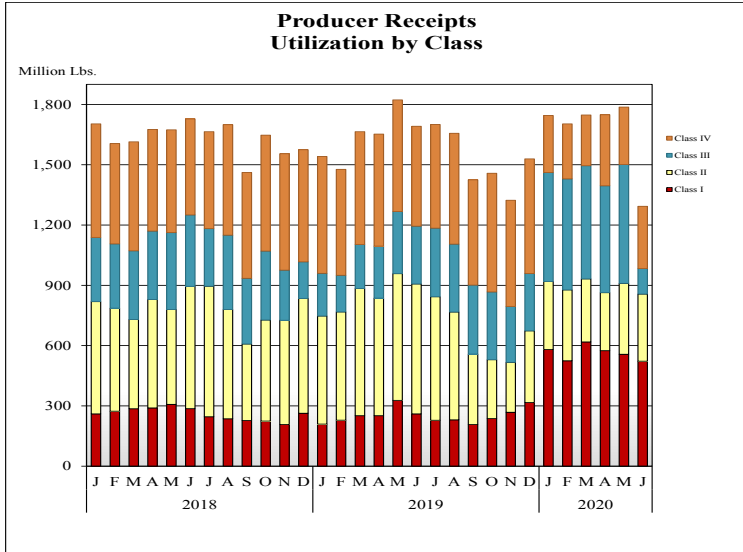
^{1/} Names in parentheses are principal points of markets.

^{2/} Producers in these markets are paid on the basis of a uniform skim and butterfat price.

MINIMUM PARTIAL PAYMENT PRICE FOR JULY 2020.....\$12.90 /cwt.



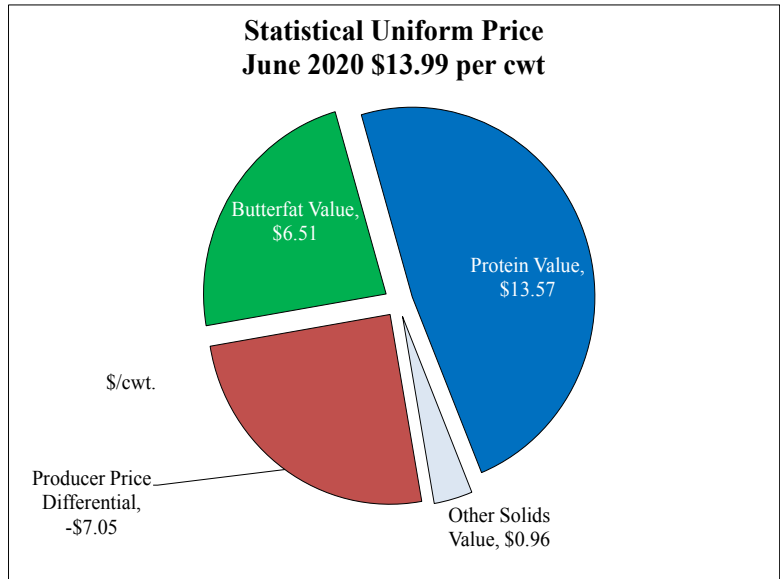
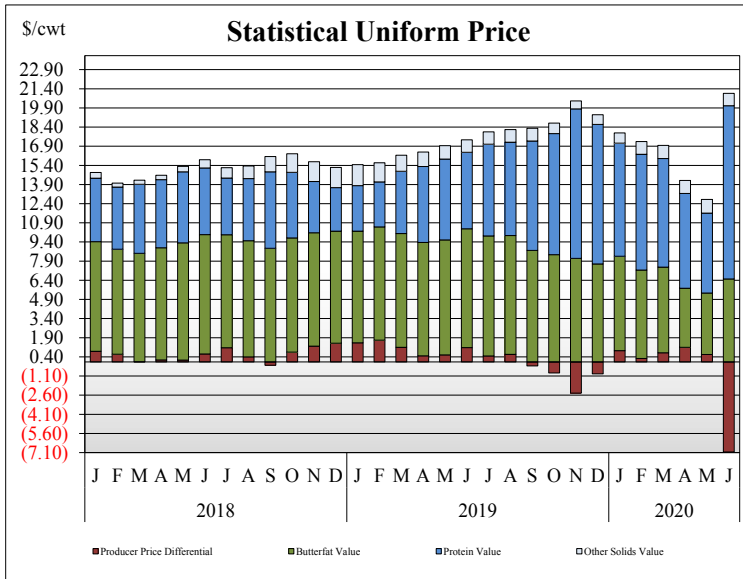
PRODUCER MILK CLASSIFICATION



Producer Receipts: Producer receipts for the Mideast Order totaled 1.293 billion pounds in June 2020. The pounds allocated to Class I represented 40.4 percent of the total pounds. Producer receipts decreased 494 million pounds compared to May 2020, and were down 398 million pounds from the prior year.

Class I Pounds: Class I Disposition for the Mideast Order totaled 523 million pounds in June 2020, up 25 million pounds from June 2019. Finished products include 160 million pounds used for whole milk, 261 million pounds of reduced fat and low fat milk, and 33 million pounds of fat free (skim) milk.

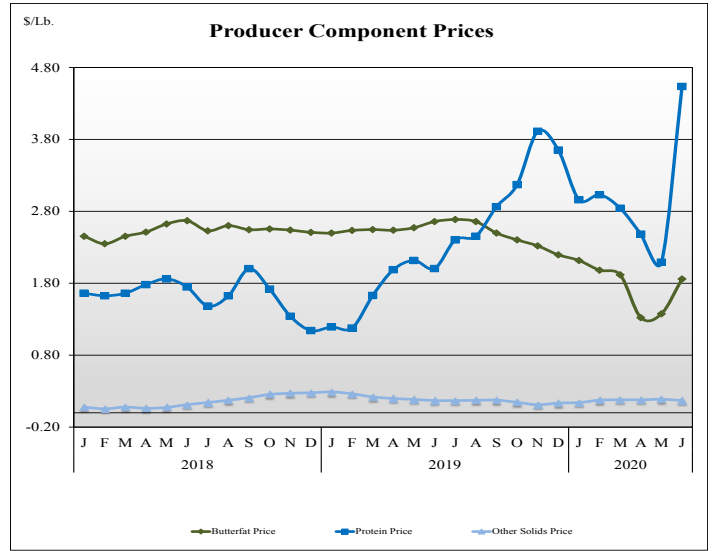
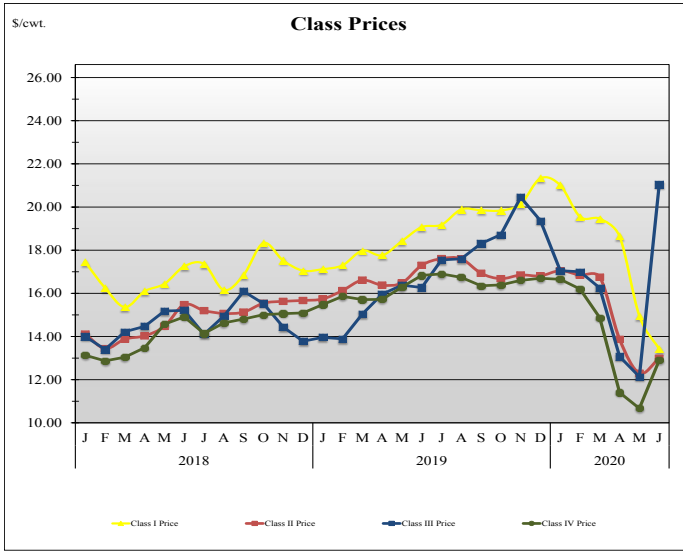
STATISTICAL UNIFORM PRICE



Statistical Uniform Price: The Mideast Federal Order Statistical Uniform Price (SUP) at Cuyahoga County, OH was \$13.99 per cwt for June 2020. The June 2020 SUP was \$3.41 per cwt lower than the June 2019 SUP. The June 2020 SUP is \$1.26 per cwt higher than the May 2020 SUP.

June 2020 Statistical Uniform Price: Using the Class III Price formula at 3.5% BF, the component values for the June 2020 SUP are: \$13.57 per cwt for protein, \$6.51 per cwt for butterfat and \$0.96 per cwt for other solids. Also included in the SUP is the -\$7.05 per cwt producer price differential. (May not add to total due to rounding.)

CLASS AND COMPONENT PRICES



WEIGHTED AVERAGE NATIONAL PRODUCT PRICES

