

The Market Administrator's BULLETIN

SOUTHWEST MARKETING AREA

Cary Hunter, Market Administrator

July 2020

Federal Order No. 126

Market Overview

Producers who delivered milk to handlers located in Dallas/Tarrant counties (TX) received a June statistical uniform price of \$13.42 for milk testing 3.5% butterfat, 2.99% true protein, 5.69% other solids and 350,000 SCC. This is an increase in comparison to the statistical uniform price of \$13.01 in May.

The Producer Price Differential (PPD) for milk delivered to handlers located in Dallas/Tarrant counties (TX) of the Southwest Milk Market Order was (\$7.62) for June. The June Class I price decreased \$1.53 from \$15.95 in May to the June level of \$14.42. The Class II price increased \$0.69 from \$12.30 in May to \$12.99 in June. The Class III price increased \$8.90 from \$12.14 in May to \$21.04 in June. The Class IV price increased \$2.23 from \$10.67 in May to \$12.90 in June.

In June, 420 producers delivered a total of 813,838,666 pounds of milk. On a daily basis, this represents a decrease of 9.09 percent from the producer receipts level in May and it represents a decrease of 27.33 percent when compared to the producer receipts level of June 2019.

Producer milk classified as Class I during June amounted to 40.96 percent of total producer receipts. This figure is up from 36.12 percent in May and is up from 26.68 percent in June 2019. The average butterfat test of producer milk pooled during June was 3.960 percent, average protein test was 3.204 percent, average other solids test was 5.798 percent, and the average somatic cell count was 207,000.

The June butterfat price increased \$0.4835 from \$1.3756 in May to the June level of \$1.8591. The protein price increased \$2.4431 from \$2.0918 in May to \$4.5349 in June. The other solids price decreased \$0.0186 from \$0.1882 in May to \$0.1696 in June. The somatic cell adjustment rate in June is 0.00111 per cwt.

June 2020 Pool Summary

- ◆ The Statistical Uniform Price for the Southwest Order in June 2020 is \$13.42 with a PPD of (\$7.62)
- ◆ 814 million pounds were pooled in June. This is down 9.09 percent from May 2020
- ◆ 420 producers pooled their milk, this is down from 456 in May
- ◆ Class I milk accounted for 40.96 percent of all receipts, down from 36.12 in May

Classification of Producer Milk

	<i>Price</i>	<i>Pounds</i>	<i>Percent</i>
Class I	14.42	333,315,063	40.96
Class II	12.99	125,904,496	15.47
Class III	21.04	4,584,595	0.56
Class IV	12.90	350,034,512	43.01

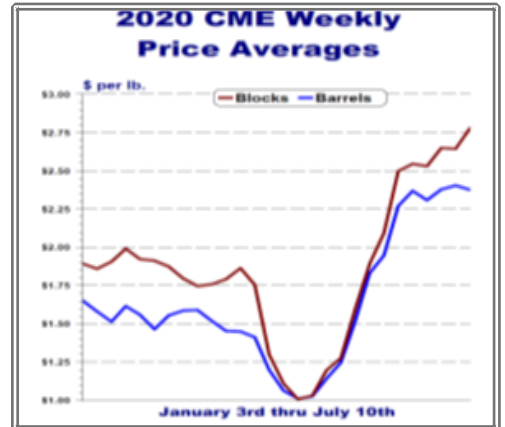
Producer Prices

Statistical Uniform Price	\$13.42	/ cwt
Producer Price Differential	(\$7.62)	/ cwt
Butterfat Price	\$1.8591	/ lb
Protein Price	\$4.5349	/ lb
Other Solids Price	\$0.1696	/ lb
Nonfat Solids Price	\$0.7354	/ lb
Somatic Cell Adjustment Rate	0.00111	/ cwt

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.

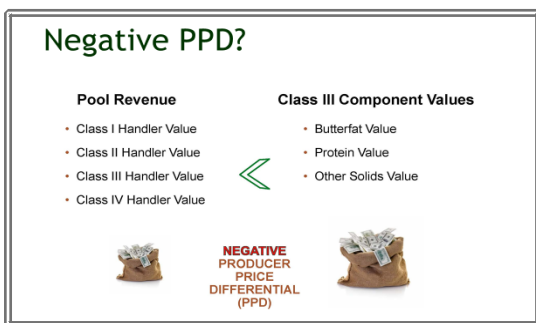
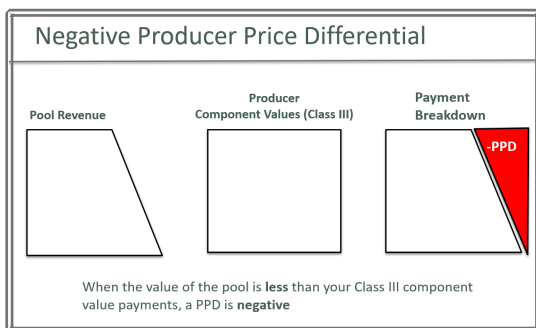
Dairy commodity markets, which are the basis for all FMMO pricing, have registered extreme swings in price levels this year, the magnitude and rapidity not previously experienced. For example, block and barrel cheese prices were relatively strong at the beginning of this year, with block prices above \$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 pictured to the right 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 126 Order Class III price of \$21.04 was \$9.62 higher than the Class I price of \$11.42, 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 126 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. 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).

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. (Continued on next page).

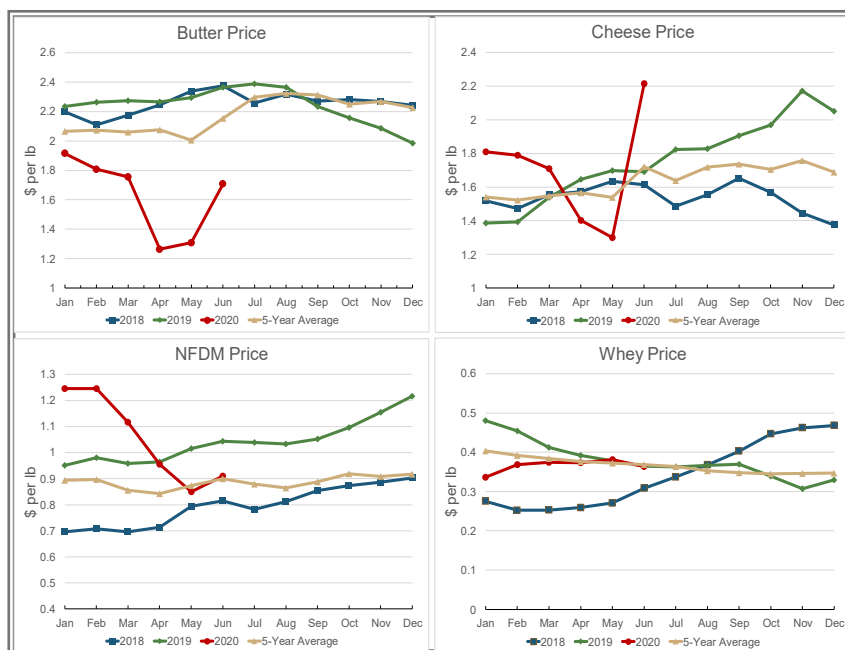
Factors Behind Negative PPD

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.

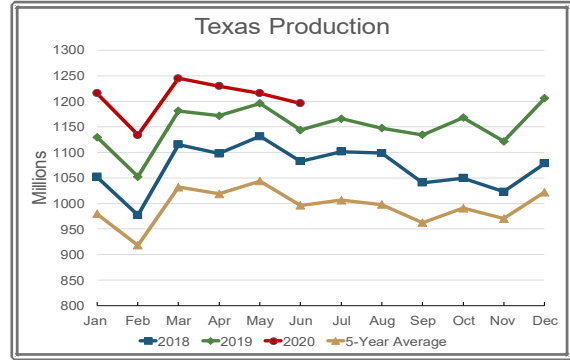


Product Price Impacts from COVID-19

The product prices (pictured left) for butter, cheese, whey and nonfat dry milk experienced various changes during the month of June. Whey decreased slightly, falling from \$0.3818 to \$0.3638. Butter price increased 31 percent from \$1.3704 to \$1.7067 per lb. Milk powder increased 7 percent. Cheese prices increased 70.1 percent from May to June, reaching historical price levels after falling significantly in the previous two months. The sharp increase in the cheese market led to higher Class III prices, higher protein prices and a negative PPD in FO 126. Although there is a negative PPD, the Statistical Uniform Price increased 41 cents from May to \$13.42.

Texas Dairy Production

In June, Texas dairy production totaled 1,196 million pounds. This is a 4.52 percent increase relative to June 2019 and a 20.1 percent increase from the June five year average (2015-2019). The June average butterfat for Texas production is 4.06 percent, the average protein is 3.24 percent, and the average other solids at 5.81 percent. The average somatic cell count is at 201,000.



Month	2020 Number of Producers	2020 Pounds (In Thousands)	2019 Pounds (In Thousands)	% Change from 2019/2020	2020 Butterfat	2020 Protein	2020 Other Solids	2020 SCC (In Thousands)
Jan	363	1,253,631	1,129,900	10.95	4.32	3.4	5.78	205
Feb	358	1,169,873	1,052,582	11.14	4.32	3.39	5.78	210
Mar	345	1,244,672	1,181,323	5.36	4.26	3.34	5.79	212
Apr	358	1,230,362	1,171,835	4.99	4.19	3.31	5.78	204
May	358	1,216,269	1,196,282	1.67	4.09	3.27	5.78	199
Jun	352	1,195,750	1,144,025	4.52	4.06	3.24	5.81	201
Jul			1,165,987					
Aug			1,147,539					
Sep			1,134,550					
Oct			1,168,308					
Nov			1,121,845					
Dec			1,205,889					
Total		7,310,557	13,820,064					

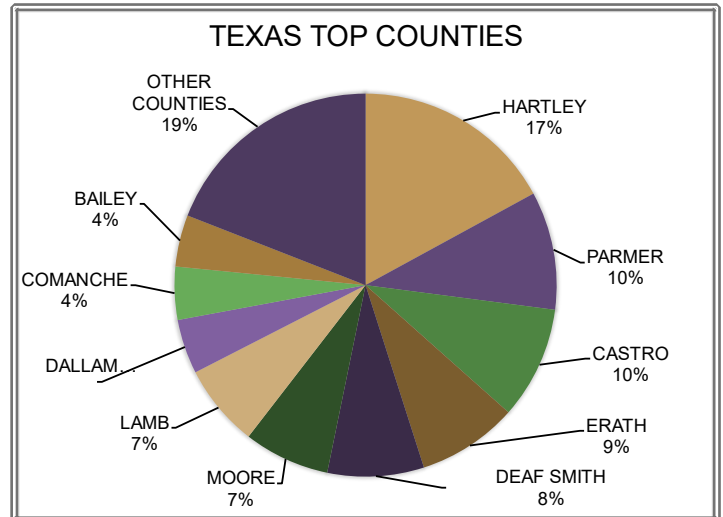
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Top Texas Counties

Hartley County has the largest share of Texas production at 17 percent, followed by Parmer County at 10 percent. Overall, 352 producers delivered milk in Texas for the month of June.

County	Number of Producers	May 2020 Pounds	% Change County
HARTLEY	17	204,100,790	31.31
PARMER	15	119,443,859	(1.65)
CASTRO	14	113,603,385	(6.80)
ERATH	49	101,646,678	4.10
DEAF SMITH	14	97,603,703	2.13
MOORE	9	86,913,347	(4.19)
LAMB	13	83,579,706	0.61
DALLAM	5	55,025,000	3.81
COMANCHE	14	53,499,900	15.70
BAILEY	10	52,215,946	(0.94)
SUM	160	967,632,314	5.44
OTHER COUNTIES	192	228,117,326	0.80
TEXAS TOTAL	352	1,195,749,640	4.52

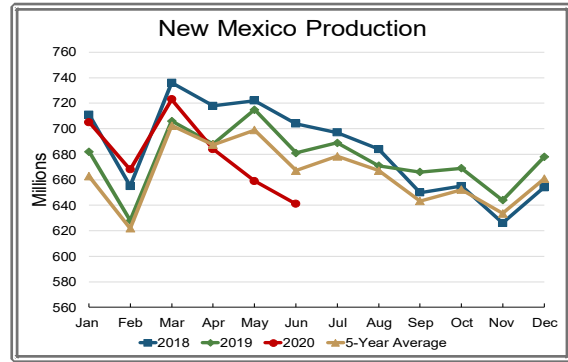
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Click [HERE](#) for more information on Texas Milk Production

New Mexico Dairy Production

In June, New Mexico dairy production totaled 641 million pounds. This is a 5.85 percent decrease relative to June 2019 and a 3.90 percent decrease from the June five year average (2015-2019). The June average butterfat is 3.66 percent, the average protein is 3.06 percent, and the average other solids at 5.80 percent. The average somatic cell count is at 174,000.



Month	2020 Number of Producers	2020 Pounds (In Thousands)	2019 Pounds (In Thousands)	% Change from 2019/2020	2020 Butterfat	2020 Protein	2020 Other Solids	2020 SCC (In Thousands)
Jan	134	705,328	682,256	3.38	3.94	3.21	5.78	204
Feb	132	667,885	628,175	6.32	3.91	3.19	5.79	206
Mar	129	723,120	705,613	2.48	3.84	3.15	5.8	203
Apr	130	684,417	688,397	(0.58)	3.75	3.13	5.78	182
May	127	659,032	715,287	(7.86)	3.65	3.07	5.78	172
Jun	128	641,179	681,022	(5.85)	3.66	3.06	5.80	174
Jul			688,639					
Aug			671,911					
Sep			665,701					
Oct			668,762					
Nov			644,760					
Dec			678,193					
Total		4,080,960	8,118,715					

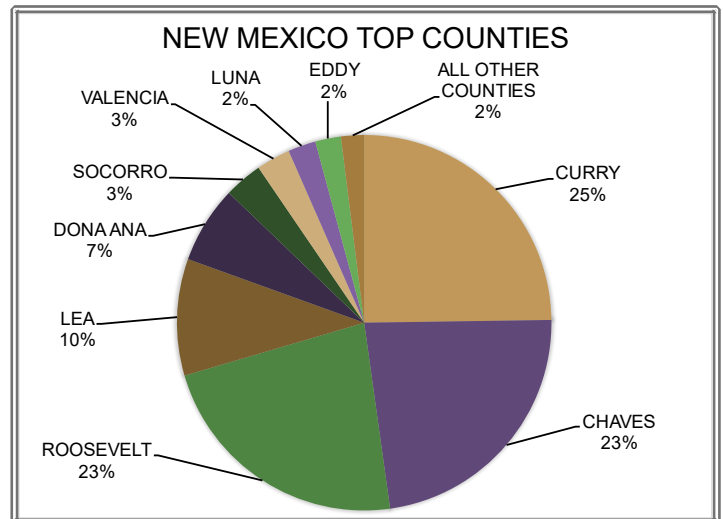
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Top New Mexico Counties

Curry County has the largest share of New Mexico production at 25 percent, followed by Chaves County at 23 percent. Overall, 128 producers delivered milk in New Mexico for the month of June.

County	Number of Producers	May 2020 Pounds	% Change 2020/2019
CURRY	25	158,790,224	(8.01)
CHAVES	26	147,617,438	(12.09)
ROOSEVELT	35	145,333,356	3.10
LEA	10	64,416,841	0.81
DONA ANA	11	42,632,509	(3.05)
SOCORRO	7	21,208,720	(7.60)
VALENCIA	4	18,826,892	(10.55)
LUNA	3	15,385,620	(8.13)
EDDY	3	14,207,380	(8.05)
SUM	124	628,418,980	(5.58)
OTHER COUNTIES	4	12,760,504	(17.40)
NM TOTAL	128	641,179,484	(5.85)

1/ Revised



Click [HERE](#) for more information on New Mexico Milk Production

COMPUTATION OF PRODUCER PRICE DIFFERENTIAL

MAY 2020

		Pounds	Price	Value
Add: Class I Differential				\$271,866.34
Class I Butterfat	60(a)	7,905,210	\$ 1.3407	\$10,598,515.06
Class I Skim Per Cwt		325,409,853	\$10.0800	\$32,801,313.18
Class II Butterfat	60(b)	12,924,823	\$ 1.8661	\$24,119,012.22
Class II Nonfat Solids		10,469,400	\$ 0.7433	\$7,781,905.03
Class III Butterfat	60(c)	1,731,398	\$ 1.8591	\$3,218,842.02
Class III Protein		95,938	\$ 4.5349	\$435,069.24
Class III Other Solids		172,523	\$ 0.1696	\$29,259.91
Class IV Butterfat	60(d)	9,668,538	\$ 1.8591	\$17,974,779.02
Class IV Nonfat Solids		32,243,663	\$ 0.7354	\$23,711,989.76
Class II, III, & IV Somatic Cell Adjustment	60(e)			\$847,416.09
Total Producer Milk- Product Pounds and Value		813,838,666		\$121,789,967.87
Add: Value as for 60(f) thru 60(j)				\$477,623.39
Less: Total Protein Pounds		61(b)	\$ 4.5349	\$118,269,090.03
Total Other Solids Pounds		47,187,373	\$ 0.1696	\$8,002,978.47
Total Butterfat Pounds		32,229,969	\$ 1.8591	\$59,918,735.40
Total Value of Somatic Cell Adjustment				\$1,289,690.14
Total Milk and Value		813,838,666		\$65,212,902.78
Add: Location Differential Adjustments		61(c)		\$3,174,004.71
Producer - Settlement Fund Reserve	61(d)			\$427,666.03
Total Product Milk/URSP and Value		813,838,666	\$ 7.57044-	\$61,611,232.04-
Less: Producer - Settlement Fund Reserve		61(f)	\$ 0.04455	\$403,274.3
Producer Price Differential (Dallas County)			\$7.62-	\$62,014,506.35-

PPD per cwt

Remaining value from which PPD per cwt is calculated

Producer Milk Utilization Percentages						
	Product		Butterfat		Skim Milk	
	Pounds	Percent	Pounds	Percent	Pounds	Percent
Class I	333,315,063	40.96	7,905,210	24.53	325,409,853	41.63
Class II	125,904,496	15.47	12,924,823	40.10	112,979,673	14.45
Class III	4,584,595	.56	1,731,398	5.37	2,853,197	.37
Class IV	350,034,512	43.01	9,668,538	30.00	340,365,974	43.55
Total	813,838,666	100.00	32,229,969	100.00	781,608,697	100.00

Producer Milk Components				
	Butterfat	Protein	Other Solids	Nonfat Solids
Total Pounds	32,229,969	26,079,757	47,187,373	73,267,130
Average Test	3.960%	3.204%	5.798%	9.002%

Federal Order Prices

Federal Order	Statistical Uniform	Statistical Uniform	PPD	PPD	Class I Utilization	Class I Utilization
	Jun-20	May-20	Jun-20	May-20	Jun-20	May-20
Appalachian - F.O. 5	15.27	15.14	N/A	N/A	83.01	68.71
Arizona - F.O. 131	15.50	12.38	N/A	N/A	26.23	23.54
Central - F.O. 32	13.53	12.24	(7.51)	0.10	43.06	27.31
Florida - F.O. 6	16.83	17.29	N/A	N/A	84.26	81.11
Mideast - F.O. 33	13.99	12.73	(7.05)	0.59	40.40	31.20
Northeast - F.O. 1	15.66	13.47	(5.38)	1.33	34.90	29.80
Pacific NW - F.O. 124	15.17	11.97	(5.87)	(0.17)	22.04	21.13
California - F.O. 51	13.13	11.95	(7.91)	(0.19)	24.40	22.40
Southeast - F.O. 7	15.38	11.02	N/A	N/A	70.06	66.55
Southwest - F.O. 126	13.42	13.01	(7.62)	0.87	40.96	36.12
Upper Midwest - F.O. 30	17.23	12.31	(3.81)	0.17	19.50	7.90

Useful links:

Agricultural Marketing Service (AMS) Dairy Website: <https://www.ams.usda.gov/rules-regulations/moa/dairy>

Federal Order Websites: <https://www.ams.usda.gov/rules-regulations/moa/dairy/mmadmin>

Dairy Market News: <https://www.ams.usda.gov/market-news/dairy-market-news-weekly-printed-reports>

National Agriculture Statistics Service (NASS): <https://www.nass.usda.gov/>

Economic Research Service: <https://www.ers.usda.gov/>



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