NAJ Equity Newsletter

August 2020

Vol. XLVI, No. 5

July Negative PPDs & Depooling

Historically negative PPDs and the accompanying depooling of Class III milk persisted in the Federal Milk Marketing Orders (FMMO) in July, as expected. July's Class III price was the second highest on record at $24.54/cwt., which dwarfed the other class prices of $16.56 (Class I), $13.79 (Class II) and $13.76 (Class IV). As outlined in National All-Jersey's (NAJ) July Equity Newsletter, each FMMO's Uniform Price is the weighted average of the utilization of all four classes. The Producer Price Differential (PPD) is calculated as the Uniform Price minus the Class III price. When Class III has the highest price of the four classes, simple arithmetic dictates that PPDs will be negative.

Table 1 Federal Order	July 2019 Class III pooled lb.	July 2020 Class III pooled lbs.	July 2020 PPD	July Estimated 2020 Value w/o Depooling	Actual July 2020 value	Difference
Northeast (Boston) FO #1	608,459,026	664,654,994	$ (5.46)	$ 170,603,543.98	$ 172,662,915.39	$ (2,059,371.41)
Mideast (Cleveland) FO #33	614,962,101	72,047,123	$ (8.02)	$ 145,542,355.27	$ 21,750,658.74	$ 123,791,696.53
Upper Midwest (Chicago) FO #30	2,475,504,096	446,240,222	$ (4.86)	$ 611,229,878.15	$ 109,671,337.01	$ 501,558,541.14
Central (Kansas City) FO #32	537,252,498	17,605,320	$ (8.69)	$ 137,793,815.57	$ 7,425,396.54	$ 130,368,419.03
California (Los Angeles) FO #51	320,021,603	11,487,515	$ (9.82)	$ 78,957,914.63	$ 5,268,751.58	$ 73,689,163.05
Southwest (Dallas) FO #126	373,260,454	3,648,966	$ (8.84)	$ 94,582,694.39	$ 3,233,232.89	$ 91,349,461.50
Pacific Northwest (Seattle) FO #124	323,198,264	179,332,073	$ (7.43)	$ 86,766,584.38	$ 45,750,774.63	$ 41,015,809.75
Appalachian (Charlotte) FO #5	22,650,633	248,254	N/A	$ 6,242,890.90	$ 172,607.39	$ 6,070,283.51
Southeast (Atlanta) FO #7	30,026,982	4,373,959	N/A	$ 7,174,254.53	$ 1,488,465.80	$ 5,685,788.73
Florida (Tampa) FO #6	3,351,330	178,797	N/A	$ 771,491.01	$ 42,695.74	$ 728,795.27
Arizona (Phoenix) FO #131	127,855,472	13,495,904	N/A	$ 36,019,424.39	$ 7,910,892.00	$ 28,108,532.39
Total	5,436,542,459	1,413,313,127		$ 1,375,684,847.20	$ 375,377,727.71	$ 1,000,307,119.49

Due to negative PPDs, massive volumes of Class III milk were depooled in July, just as happened in June. Class III handlers have the option whether to pool milk. By depooling milk the handler retains the Class III value instead of paying it to the FMMO pool to augment the pay price of handlers of the other three classes. Table 1 shows how much Class III milk was pooled in each order in July 2019 compared to July 2020. The chart also estimates July 2020's Class III pool value if 2019's volumes had been pooled. For comparison purposes July 2020's actual Class III pool value is shown, along with the difference between Class III value with full pooling and what was actually pooled. All told approximately $1 billion of Class III milk may have been depooled in July. Please note that the four FMMOs that still employ fat-skim pricing also had significant volumes of Class III milk depooled.

Table 2	May-20	Jun-20	Jul-20
Class I	$ 12.95	$ 11.42	$ 16.56
Class II	$ 12.30	$ 12.99	$ 13.79
Class III	$ 12.14	$ 21.04	$ 24.54
Class IV	$ 10.67	$ 12.90	$ 13.76
Statistical Blend Prices:			
Northeast (Boston) FO #1	$ 13.47	$ 15.66	$ 19.08
Appalachian (Charlotte) FO #5	$ 15.14	$ 15.27	$ 19.34
Southeast (Atlanta) FO #7	$ 15.39	$ 15.38	$ 18.89
Florida (Tampa) FO #6	$ 17.29	$ 16.83	$ 20.80
Mideast (Cleveland) FO #33	$ 12.73	$ 13.99	$ 16.52
Upper Midwest (Chicago) FO #30	$ 12.31	$ 17.23	$ 19.68
Central (Kansas City) FO #32	$ 12.24	$ 13.53	$ 15.85
California (Los Angeles) FO #51	$ 11.95	$ 13.13	$ 14.72
Southwest (Dallas) FO #126	$ 13.01	$ 13.42	$ 15.70
Arizona (Phoenix) FO #131	$ 12.38	$ 15.50	$ 16.12
Pacific Northwest (Seattle) FO #124	$ 11.97	$ 15.17	$ 17.11
Average	**$ 13.44**	**$ 15.01**	**$ 17.62**

Another important facet of negative PPDs is that they only occur when prices are moving up. Typically, Class I is the highest value milk. However, because Class I is priced in advance of the month and manufacturing milk is priced after the month, any time prices increase rapidly in-between those dates, Class III will likely exceed the Class I price. And prices have moved up sharply over the past two months, Class III in particular. Table 2 shows the class prices for May, June and July, along with the FMMO Uniform Price for each order. FMMO prices averaged $13.44 in May but had improved by more than $4.00 to $17.62 in July. That improvement exceeds the gains seen in Classes I, II and IV, but falls far short of the $12.40 jump in the Class III price.

What is the significance of depooled milk and the resulting impact on FMMO Uniform Prices? For producers paid the FMMO Uniform Price the impact is a direct lowering of their pay price. However, over 80% of milk is marketed by co-ops. When a co-op depools milk, the Class III value is retained by the co-op and can be added to producers' milk checks above the FMMO minimum price, paid as part of a year-end 13th check, or becomes part of retained equity. Also, many proprietary cheese plants opted to pay their independent producers at least some of the depooled Class III value, as was shown in last month's sampling of producer settlement statements.

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What does the future hold? August PPDs will likely still be negative, but not nearly to the extent of June and July. The August Class I price is $19.78, and August Class III futures are hovering around $19.50 at the time of this newsletter. However, Classes II and IV project to be around $13.00, which will drag the Uniform Price below the Class III price. Positive PPDs should return for September milk, however the month's Uniform Prices will slide below August.

Be Careful What You Wish For

Due to the unprecedented negative PPDs and depooling over the past two months, several policy remedies have been mentioned. However, care must be exercised to make certain that the solution doesn't wind up being worse than the problem. The hearing five years ago to promulgate the California order serves as an illustration.

Given the expected low Class I utilization the proponents of creating the order realized that negative PPDs could be a common occurrence. In order to sidestep the issue, they proposed to distribute the PPD across the component values for butterfat, protein and other solids. In months when the PPD was positive, the California order would increase the prices of those three components and in months when the PPD was negative, component prices would be lowered. NAJ recognized that PPDs would likely be negative more often than not. Furthermore, NAJ realized that lowering component values would disproportionately impact producers with high components, and Jerseys in particular. In testimony NAJ argued that the PPD plan would be counterproductive in an order with nearly 90% manufacturing milk. Lowering component values would discourage component production when in reality the order's pricing needed to encourage component production. NAJ was the only witness to testify against the PPD proposal, and USDA agreed with NAJ's position. The California order has operated with PPDs valued on a per hundredweight basis since its inception in November 2018.

Given what has happened with PPDs the past two months, NAJ decided to look at what would have been the impact of implementing the component PPD proposal. Table 3 shows the PPD per hundredweight each month along with how the PPD would have been allocated to each of the three components; butterfat, protein and other solids. The impact on Jersey milk is calculated based on component tests of 4.8% butterfat, 3.7% protein and 5.7% other solids. The difference between the per hundredweight approach and the component approach is determined. To illustrate, in November 2018, the order's first month of operation, the PPD was $1.00, which would have converted to $0.16 per pound of butterfat, $0.12 per pound of protein and $0.02 per pound of other solids. The impact on Jersey milk would have been a PPD of $1.29/cwt., an improvement of $0.29 over the conventional approach. In fact, during the order's first ten months of operation PPDs were positive, and Jersey producers would have been better off with the component proposal. However, beginning last September the PPDs have been negative 10 of 11 months, and Jersey producers would have fared significantly worse over time using the component approach. The past two months would have been particularly brutal for Jersey herds by enduring effective PPDs of -$2.31 and -$2.87 lower than the announced PPDs of -$7.91 and -$9.82.

Often the impact of NAJ's work is not immediate. In terms of the California Order, it's taken nearly five years for NAJ's vision to bear fruit for its members. However, NAJ remains one of the few organizations that views policy proposals from the viewpoint of, "How will this impact high component milk?"

Table 3		PPD/lb.				
2018	PPD/CWT.	Fat	Protein	O.S.	Impact on Jersey Milk	Difference
November	$ 1.00	$ 0.16	$ 0.12	$ 0.02	$ 1.29	$ 0.29
December	$ 1.13	$ 0.18	$ 0.13	$ 0.02	$ 1.46	$ 0.33
		PPD/lb.				
2019	PPD/CWT.	Fat	Protein	O.S.	Impact on Jersey Milk	Difference
January	$ 1.13	$ 0.20	$ 0.13	$ 0.01	$ 1.47	$ 0.34
February	$ 1.23	$ 0.21	$ 0.14	$ 0.01	$ 1.60	$ 0.37
March	$ 0.99	$ 0.17	$ 0.11	$ 0.01	$ 1.29	$ 0.30
April	$ 0.46	$ 0.08	$ 0.05	$ 0.00	$ 0.60	$ 0.14
May	$ 0.55	$ 0.09	$ 0.06	$ 0.01	$ 0.72	$ 0.17
June	$ 0.96	$ 0.17	$ 0.11	$ 0.01	$ 1.25	$ 0.29
July	$ 0.27	$ 0.05	$ 0.03	$ 0.00	$ 0.35	$ 0.08
August	$ 0.24	$ 0.04	$ 0.03	$ 0.00	$ 0.31	$ 0.07
September	$ (0.94)	$(0.16)	$(0.11)	$(0.01)	$ (1.23)	$ (0.29)
October	$ (1.59)	$(0.27)	$(0.18)	$(0.02)	$ (2.07)	$ (0.48)
November	$ (3.39)	$(0.59)	$(0.38)	$(0.03)	$ (4.42)	$ (1.03)
December	$ (1.77)	$(0.31)	$(0.20)	$(0.02)	$ (2.31)	$ (0.54)
		PPD/lb.				
2020	PPD/CWT.	Fat	Protein	O.S.	Impact on Jersey Milk	Difference
January	$ 0.51	$ 0.08	$ 0.07	$ 0.01	$ 0.66	$ 0.15
February	$ (0.12)	$(0.02)	$(0.02)	$(0.00)	$ (0.16)	$ (0.04)
March	$ (0.23)	$(0.03)	$(0.03)	$(0.00)	$ (0.30)	$ (0.07)
April	$ (0.13)	$(0.02)	$(0.02)	$(0.00)	$ (0.17)	$ (0.04)
May	$ (0.19)	$(0.03)	$(0.03)	$(0.00)	$ (0.25)	$ (0.06)
June	$ (7.91)	$(1.17)	$(1.11)	$(0.09)	$ (10.22)	$ (2.31)
July	$ (9.82)	$(1.45)	$(1.38)	$(0.11)	$ (12.69)	$ (2.87)

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NAJ Milk & Component Outlook - *July 2020 Jersey Price Comparisons*

JUL'20 STATISTICAL BLEND PRICE

Northeast (Boston)	$19.08
Appalachian (Charlotte)	$19.34
Southeast (Atlanta)	$18.89
Florida (Tampa)	$20.80
Mideast (Cleveland)	$16.52
Upper Midwest (Chicago)	$19.68
Central (Kansas City)	$15.85
California (Los Angeles)	$14.72
Southwest (Dallas)	$15.70
Arizona (Phoenix)	$16.12
Pacific Northwest (Seattle)	$17.11
ALL FMMO MARKET AVERAGE	**$17.62**

Prices reflect Federal Order minimum blend prices for city shown.

JUL'20 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,345
Appalachian (Charlotte)	376
Southeast (Atlanta)	388
Florida (Tampa)	193
Mideast (Cleveland)	1,212
Upper Midwest (Chicago)	1,001
Central (Kansas City)	824
California (Los Angeles)	1,879
Southwest (Dallas)	871
Arizona (Phoenix)	290
Pacific Northwest (Seattle)	701
ALL FMMO MARKET TOTAL	**10,081**

Total Grade A milk volume sold under FMMO during month.

JUL'20 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$24.85
Appalachian (Charlotte)	$21.50
Southeast (Atlanta)	$23.09
Florida (Tampa)	$23.09
Mideast (Cleveland)	$21.71
Upper Midwest (Chicago)	$25.56
Central (Kansas City)	$21.44
California (Los Angeles)	$18.05
Southwest (Dallas)	$20.19
Arizona (Phoenix)	$18.56
Pacific Northwest (Seattle)	$21.79
ALL FMMO MARKET AVERAGE	**$21.80**

Prices reflect FMMO minimum prices at Jersey component values.

JUL '20 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$25.02
Appalachian (Charlotte) (includes protein prem.)	$21.79
Southeast (Atlanta)	$23.09
Florida (Tampa)	$23.09
Mideast (Cleveland) (includes protein premium)	$22.14
Upper Midwest (Chicago) (includes cy premium)	$25.73
Central (Kansas City)	$21.44
California (Los Angeles)	$18.05
Southwest (Dallas)	$20.19
Arizona (Phoenix) (includes protein)	$18.83
Pacific Northwest (Seattle)	$21.79
ALL FMMO MARKET AVERAGE	**$21.92**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

JUL'20 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$5.94
Appalachian (Charlotte)	$2.45
Southeast (Atlanta)	$2.29
Florida (Tampa)	$2.29
Mideast (Cleveland)	$5.62
Upper Midwest (Chicago)	$6.05
Central (Kansas City)	$5.59
California (Los Angeles)	$3.33
Southwest (Dallas)	$4.49
Arizona (Phoenix)	$2.71
Pacific Northwest (Seattle)	$4.68
ALL FMMO MARKET AVERAGE	**$4.13**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

JUL'20 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	31.1%
Appalachian (Charlotte)	12.7%
Southeast (Atlanta)	11.0%
Florida (Tampa)	11.0%
Mideast (Cleveland)	34.0%
Upper Midwest (Chicago)	30.7%
Central (Kansas City)	35.3%
California (Los Angeles)	22.6%
Southwest (Dallas)	28.6%
Arizona (Phoenix)	16.8%
Pacific Northwest (Seattle)	27.3%
ALL FMMO MARKET AVERAGE	**23.7%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION

	Jul-20
Butterfat	4.87
TRUE Protein	3.64
Other Solids	5.73
Solids Not Fat (SNF)	9.37
Cheese Yield (90% Fat Recovery, 38% Moisture)	12.59
CME Block Cheese Price	$ 2.65

REGULATED MILK PRICES

	Jul-20
FMMO Milkfat	$ 1.9583
FMMO True Protein	$ 5.6294
FMMO Other Solids	$ 0.1492

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:

	Jul-20
FMMO Milkfat Adjustment	$2.20
FMMO True Protein Adjustment	$3.27
FMMO Other Solids Adjustment	($0.01)

NAJ Milk & Component Outlook - *2020 Prices through July*

2020 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$16.85
Appalachian (Charlotte)	$18.24
Southeast (Atlanta)	$18.42
Florida (Tampa)	$20.24
Mideast (Cleveland)	$15.67
Upper Midwest (Chicago)	$15.58
Central (Kansas City)	$15.14
California (Los Angeles)	$14.85
Southwest (Dallas)	$15.76
Arizona (Phoenix)	$15.56
Pacific Northwest (Seattle)	$15.47
ALL FMMO MARKET AVERAGE	**$16.53**

Prices reflect Federal Order minimum blend prices for city shown.

2020 MILK VOLUME (Million #)

Northeast (Boston)	15,665
Appalachian (Charlotte)	3,061
Southeast (Atlanta)	2,768
Florida (Tampa)	1,472
Mideast (Cleveland)	11,237
Upper Midwest (Chicago)	14,598
Central (Kansas City)	8,747
California (Los Angeles)	13,722
Southwest (Dallas)	7,029
Arizona (Phoenix)	2,876
Pacific Northwest (Seattle)	4,636
ALL FMMO MARKET TOTAL	**85,812**

Total Grade A milk volume sold under FMMO.

2020 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$21.10
Appalachian (Charlotte)	$20.66
Southeast (Atlanta)	$21.21
Florida (Tampa)	$22.64
Mideast (Cleveland)	$19.27
Upper Midwest (Chicago)	$20.36
Central (Kansas City)	$19.15
California (Los Angeles)	$16.82
Southwest (Dallas)	$19.08
Arizona (Phoenix)	$17.90
Pacific Northwest (Seattle)	$18.93
ALL FMMO MARKET AVERAGE	**$19.74**

Prices reflect FMMO minimum prices at Jersey component values.

2020 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$21.32
Appalachian (Charlotte) (includes protein prem.)	$21.00
Southeast (Atlanta)	$21.21
Florida (Tampa)	$22.64
Mideast (Cleveland) (includes protein premium)	$19.85
Upper Midwest (Chicago) (includes cy premium)	$20.60
Central (Kansas City)	$19.15
California (Los Angeles)	$16.82
Southwest (Dallas)	$19.08
Arizona (Phoenix) (includes protein)	$18.23
Pacific Northwest (Seattle)	$18.93
ALL FMMO MARKET AVERAGE	**$19.90**

Includes a protein premium of $0.05 for every 0.01% increase in protein over the market average.

2020 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.50
Appalachian (Charlotte)	$2.50
Southeast (Atlanta)	$2.31
Florida (Tampa)	$2.50
Mideast (Cleveland)	$4.19
Upper Midwest (Chicago)	$4.41
Central (Kansas City)	$4.00
California (Los Angeles)	$2.08
Southwest (Dallas)	$3.47
Arizona (Phoenix)	$2.65
Pacific Northwest (Seattle)	$3.55
ALL FMMO MARKET AVERAGE	**$3.29**

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

2020 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	26.6%
Appalachian (Charlotte)	13.5%
Southeast (Atlanta)	12.2%
Florida (Tampa)	12.3%
Mideast (Cleveland)	26.7%
Upper Midwest (Chicago)	26.9%
Central (Kansas City)	26.4%
California (Los Angeles)	14.2%
Southwest (Dallas)	22.4%
Arizona (Phoenix)	17.0%
Pacific Northwest (Seattle)	23.0%
ALL FMMO MARKET AVERAGE	**20.1%**

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION 2020

Butterfat	5.03
TRUE Protein	3.76
Other Solids	5.73
Solids Not Fat (SNF)	9.49
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.02
CME Block Cheese Price	$1.93

REGULATED MILK PRICES 2020

FMMO Milkfat	$1.7894
FMMO True Protein	$3.3675
FMMO Other Solids	$0.1691

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT: 2020

FMMO Milkfat Adjustment	$2.08
FMMO True Protein Adjustment	$2.02
FMMO Other Solids Adjustment	($0.01)