

The Market Administrator's

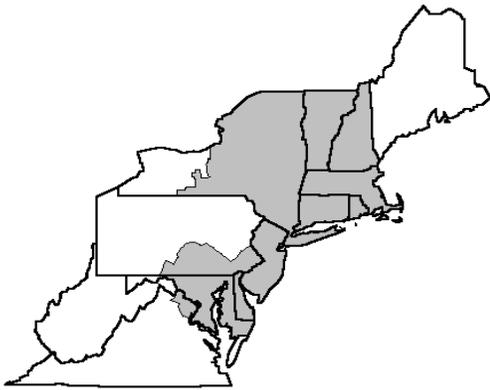
BULLETIN

NORTHEAST MARKETING AREA

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Federal Order No. 1



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November Pool Price Calculation

The November 2015 statistical uniform price (SUP) for the Northeast Marketing Area was announced at \$18.32 per hundredweight (cwt) 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 \$19.74 per cwt. The November statistical uniform price was 72 cents per cwt above the October price. The November producer price differential (PPD) at Suffolk County was \$3.02 per cwt, an increase of 88 cents per cwt from last month.

Product Prices Effect

During November product prices for nonfat dry milk declined 6 cents per pound, cheese fell 3 cents per pound, and dry whey rose slightly. The only dramatic change was in butter, which jumped 23 cents per pound. This resulted in a 27-cent increase in the butterfat component price to \$3.1830 per pound, the highest ever for the month of November and the second highest ever since Federal Order Reform. The cheese price decline translated into a 38-cent per pound drop in the protein component price to \$1.3205 per pound, the second lowest ever for November and the third lowest protein price since reform. The prices for nonfat solids and other solids followed the same patterns as nonfat dry milk and dry whey, respectively, and resulted in record low nonfat solids price for the month and the second lowest other solids ever for November.

All class prices rose except Class III, which declined 16 cents per cwt. The Class I price increased 64 cents per cwt from the previous month, the Class IV price rose 46 cents per cwt, and the Class II price jumped \$1.82 per cwt. When combined with the class utilizations, these changes resulted in both a higher statistical uniform price and a larger PPD.

Utilization Highlights

The volume for November was the highest ever for the month. For the second time this year, the Class I volume was above the same month from the previous year. Both the Class II and Class IV volumes were the second highest ever for the month of November. This was the first month in a year and a half that Class IV did not set a record when compared to the same month previous year. ❖

Pool Summary

- A total of 11,668 producers were pooled under the Order with an average daily delivery per producer of 5,948 pounds.
- Pooled milk receipts totaled 2.082 billion pounds, a decrease of 0.7 percent from last month on an average daily basis.
- Class I usage (milk for bottling) accounted for 36.3 percent of total milk receipts, a decrease of 1.3 percentage points from October.
- The average butterfat test of producer receipts was 3.88 percent.
- The average true protein test of producer receipts was 3.16 percent.
- The average other solids test of producer receipts was 5.72 percent. ❖

Class Utilization

Pooled Milk	Percent	Pounds
Class I	36.3	755,231,370
Class II	23.4	487,371,156
Class III	25.7	536,217,231
Class IV	14.6	303,125,587
Total Pooled Milk		2,081,945,344

Producer Component Prices

	2015	2014
	\$/lb	
Protein Price	1.3205	3.9018
Butterfat Price	3.1830	2.2011
Other Solids Price	0.0361	0.4505

Class Price Factors

	2015	2014
	\$/cwt	
Class I	19.73	27.31
Class II	18.26	19.91
Class III	15.30	21.94
Class IV	16.89	18.21

Looking Toward 2016

Based on current projections, the uniform price at Boston, MA, will finish the year averaging a little over \$17.00 per hundredweight (cwt) for 2015. This is a 29 percent decrease from 2014, or about a \$7.00 per cwt drop, albeit from a record high level. At the same time, the annual average corn price projects to finish 2015 dropping by almost 10 percent from its 2014 level, if Chicago Mercantile Exchange corn futures play out as they settled on December 11. Looking back, the average annual Northeast Order Statistical Uniform Price (SUP), corn, and soybean prices for 2015 are very similar to their respective average levels in 2010. We'll take a look at supply and demand factors as we head toward the new year, look at how milk prices and selected input prices have moved with respect to each other, and present a futures market based forecast for the milk price in 2016.

Supply Factors

Last year at this time, USDA forecast an all-time high U.S. milk production level. Northeast Order pool volume has set a record high level through 11 months (not including depooling that occurred in May and June), and will likely set a new record high for the year. Though pooled volume does not equate to total milk production, it is indicative of how strong milk production has been. Year-over-year milk production growth in the top 23 milk producing states, as reported by the National Agricultural Statistics Service *Milk Production* report, grew an average of 1.7 percent for the first five months of the year. This was growth following a strong production year. Milk production growth has averaged less, 0.7 percent, from June on, and October saw

just a 0.1 percent increase over the previous October. These statistics suggest production nationally may be responding to lower margins. However, more regionally, there remain pockets of stronger growth. New York's milk production averaged 2.7 percent year-over-year growth each month from June on, and grew 2.4 percent in October.

Stocks of dairy products in the U.S. have been building. October stocks of butter were 21.0 percent higher than a year ago and 25.3 percent higher than the 5-year average for the month. October total cheese stocks were 15.4 percent higher than a year ago and 12.9 percent higher than the 5-year average. Nonfat dry milk stocks were 1.5 percent below a year ago, but still 36.6 percent above the 5-year average for the month. October dry whey stocks were 4.2 percent higher than a year ago and 29.8 percent above the 5-year average.

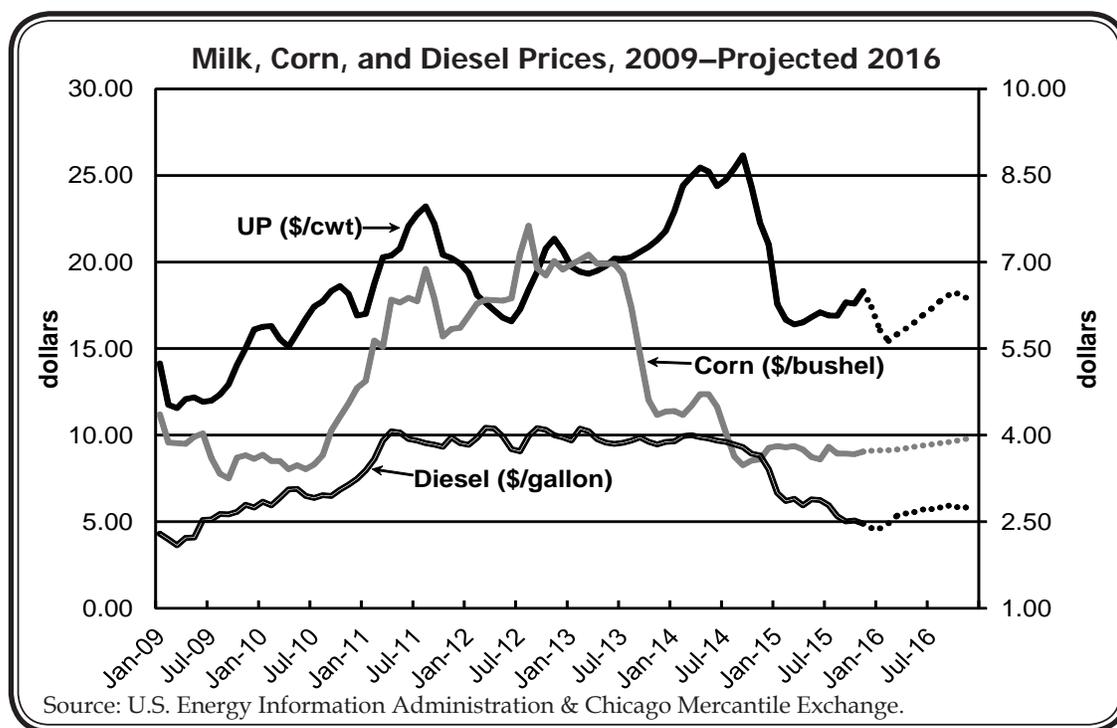
Demand Factors

The U.S. exported 14.3 percent of its milk production, on a total milk solids basis, for the period January through September 2015. This compares with 15.7 percent for the same period a year earlier, however, most exports were at significantly lower prices. Globally, milk production was stronger than markets required, increasing inventories for buyers, then sellers, and putting downward pressure on world prices. These inventories are expected to keep the brakes on price recovery until they are worked through. Additionally, China's reduced import volume coupled with Russia's import embargo continued to be a drag on overall demand throughout 2015. These two factors will still impact global dairy markets in the upcoming year

as Russia's trade ban is expected to continue and China's imports are expected to stabilize in 2016, but not increase.

Export markets are influenced by currency exchange rates that impact relative value of U.S. dairy products. Slow but steady U.S. economic growth in 2015, while the global economy has faced challenges such as the financial crises in Europe and disappointing growth in emerging economies, have resulted in a generally stronger U.S. dollar. This makes U.S. products relatively

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Looking *(continued from page 2)*

more expensive on the global market. U.S. products must either be priced lower to maintain competitiveness or lose market share and have to find a home domestically; both have happened to some degree. Still, export levels of 14.3 percent of U.S. production are considered robust historically and play a significant role in the U.S. dairy demand equation.

As potential upside to global dairy prices, some analysts point to the weather phenomenon El Niño potentially adversely impacting production in some large milk production regions, while current economics would not warrant feed purchases if pastures dry up. There is some thinking, however, that the greater potential is for the new lack of European Union quotas, coupled with a depreciation of the euro, leading to more downside in global prices.

Domestic Situation

With strong global milk production, the U.S. domestic market will continue to be counted on as a home to the large majority of milk produced here. We'll briefly look at some demand indicators important to dairy consumption to get a feel for what to expect from the domestic market. The unemployment rate has declined steadily since its high near 10 percent in 2009 and has been below 6 percent since September 2014. In October, the Restaurant Performance Index (that tracks the health and outlook of the U.S. restaurant industry) was above 100 for the 32nd consecutive month, driven by stronger same-store sales and traffic and a more optimistic outlook among operators. Values above 100 signify expansion in the industry. Restaurant sales are an important outlet for dairy products and so the index is used as an indicator of domestic dairy sales. The Consumer Confidence Index remains below 100, indicating soft demand, but at 88.7 in November, is near levels last reached in 2007. November's index dropped to 90.4 in November, from 99.1 in October, which also experienced a moderate drop. Most indicators suggest reason to have some optimism in the domestic market in 2016.

Looking to 2016

The USDA forecasts the U.S. all-milk price for 2016 to range between \$15.95 and \$16.75 per cwt. Using Chicago Mercantile Exchange (CME) futures prices from December 11 for Class III and Class IV milk, the Northeast Order SUP projects to finish 2015 averaging \$17.16 per cwt for the year, \$0.50 below what was forecast at this time last year; 2015 played out largely as expected. Again, using the December 11 CME futures prices, the 2016 Northeast SUP is forecast to average \$17.04 per cwt for the year.

Milk Price May Be Similar to 2015, But so May Be Input Costs

All indications are that milk prices may remain soft in 2016, remaining close to 2015 levels. While milk prices remain lower, relative to 2013 and 2014 levels,

so to are the price of inputs such as feed and fuel. The accompanying chart presents historical and projected prices for the Northeast Order SUP of milk, NASS *Agricultural Prices* and CME futures corn prices, and U.S. Energy Information Administration on-highway diesel fuel. A 2016 SUP that may be \$0.12 lower in 2016, will meet a corn price that may be about \$0.10 per bushel higher and a diesel fuel price that is about \$0.05 per gallon cheaper. ❖

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2016 Payment Dates to Producers

The calendar below shows the dates for partial payments to producers that are not members of cooperatives. Partial payments are paid to producers for the milk received by pool handlers during the first 15 days of the month and are paid at not less than the lowest announced class price for the preceding month, less proper deductions authorized in writing by the producer. As required by the Order, payment must be made so that a producer receives it no later than the date shown. The table dates vary due to weekends and national holidays.

The final payment date that non-member producers must be paid is dependent on the date that the statistical uniform price is announced. Each month, the date that final payments to producers must be received by is printed on the back of the Pool Price Announcement. The final payment is for the remaining milk received and is priced such that the producer should receive an average price for the entire month's milk at roughly the uniform price with adjustments for zone differential, component values, and other deductions relevant to that producer.

Producers that are members of cooperatives usually receive payments at the same time, although it is not required by the Order. ❖

Month Milk Produced	Required Producer Payments Under the Northeast Order	
	Partial Payment Due	
	Day	Date
January	Tuesday	1/26/16
February	Friday	2/26/16
March	Monday	3/28/16
April	Tuesday	4/26/16
May	Thursday	5/26/16
June	Monday	6/27/16
July	Tuesday	7/26/16
August	Friday	8/26/16
September	Monday	9/26/16
October	Wednesday	10/26/16
November	Monday	11/28/16
December	Tuesday	12/27/16

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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	739,021,779	\$9.90	73,163,156.12	
Butterfat	16,209,591	2.9081	47,139,111.59	
Less: Location Adjustment to Handlers			(2,681,640.11)	\$117,620,627.64
Class II— Butterfat	30,306,070	3.1900	96,676,363.30	
Nonfat Solids	42,254,204	0.8167	34,509,008.40	131,185,371.70
Class III— Butterfat	23,124,375	3.1830	73,604,885.66	
Protein	16,956,183	1.3205	22,390,639.66	
Other Solids	30,554,983	0.0361	1,103,034.86	97,098,560.18
Class IV— Butterfat	11,045,990	3.1830	35,159,386.19	
Nonfat Solids	27,005,009	0.6627	17,896,219.48	53,055,605.67
Total Classified Value				\$398,960,165.19
Add: Overage—All Classes				160,378.41
Inventory Reclassification—All Classes				359,807.66
Other Source Receipts	398,695 Pounds			20,591.63
Total Pool Value				\$399,500,942.89
Less: Producer Component Valuations @ Class III Component Prices				(348,053,368.40)
Total PPD Value Before Adjustments				\$51,447,574.49
Add: Location Adjustment to Producers				11,355,508.47
One-half Unobligated Balance—Producer Settlement Fund				926,114.55
Less: Producer Settlement Fund—Reserve				(842,407.49)
Total Pool Milk & PPD Value	2,082,344,039 Producer pounds			\$62,886,790.02
Producer Price Differential		\$3.02		
Statistical Uniform Price		\$18.32		

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