CDE DAIRY MARKETS & MANAGEMENT UPDATE

All prices — **TUESDAY, JULY 7, 2020** — except where noted

Producer Price Differential (PPD): In 2000, Federal Milk Marketing Order (FMMO) Reform occurred and set up a class pricing system by which dairy producers would be paid based on class utilization of milk within the FMMO. The system also set minimum prices for each classification based on historic actual values. The class pricing system was developed assuming that the value of Class I (fluid milk), Class II (ice cream and yogurt), Class III (cheese and whey) and Class IV (butter and powder) dairy products would decrease in value by class—with Class I having the highest value and Class IV the lowest. As we have seen numerous times over the past 20 years, the decreasing price assumption is not always true. As a result of this pricing mechanism, unorthodox market conditions sometimes result in a negative Producer Price Differential (PPD) due to how class milk is priced and the timing of announced advanced prices.

Over the next few months, current market conditions are expected to generate negative PPDs for much of the country because of the spread between current Class III and IV prices as well as high Class III price relative to the announced Class I Mover.

The PPD is basically the difference between Class III dairy product value and the value of dairy products from Class I, II and IV. In "normal" market conditions, the value of Class I, II and IV will be greater than Class III value and will add money to the "pool" that can be returned to the farmer and shows as a positive PPD in your milk check. A few conditions can exist that cause the value of Class III to be greater than I, II and IV, resulting in less money in the "pool". When this occurs, it shows as a negative PPD in your milk check. Two main factors right now are expected to cause the highest negative PPDs since the class pricing system began in 2000.

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Last year, Class I price determination switched from being calculated from the higher of Class III or IV price to being calculated by averaging Class III and IV milk price and adding 74 cents per cwt. Under the "higher of" Class I calculation, the value of Class I would always be greater than Class III and would not contribute to a negative PPD. Under the current Class I pricing mechanism, when the spread between Class III and IV is larger than $1.48 per cwt, Class I price will drop below Class III and contribute to a negative PPD. The larger the spread, the more negative the PPD. The spread between June Class III and IV prices is $8.40.

The other main factor contributing to negative PPDs is due to how the Class I Mover is calculated and the timing of when it is announced. The June Class I Mover was announced towards the beginning of May and was calculated using actual Class III and IV prices surveyed at the end of April and beginning of May prior to when the June Class III rally occurred. This resulted in a much lower value for Class I relative to June Class III. Another way to explain this scenario would be that it cost the processor more to manufacture and sell Class III product than what premium they received for bottling and selling fluid milk.

PPDs will moderate eventually, but it will take time. The July Class I Mover is $16.56, up from $11.42 in June, and reflects the rally in Class III during June. However, based on July 7 futures prices, the spread in Class III and IV will not drop below the $1.48 threshold until December 2020. I know it will be difficult seeing a large negative PPD on your June milk check. Try to keep in mind that you are receiving some benefit of the Class III rally in your blend price. Historically, in Pennsylvania, about half your milk check is determined relative to the Class III milk price.

Prices change daily. This market information is an example for educational purposes. The market data below are compiled weekly by Farmshine, via CME & USDA reports

CME DAILY FUTURES & OPTIONS TRADING — JULY 7, 2020 AT THE CLOSE

	JUL-20	AUG-20	SEP-20	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21	TREND
CLASS III MILK FUTURES ($/CWT)	23.44	21.50	19.13	17.97	17.28	16.49	16.19	16.16	16.33	16.26	16.37	16.50	↑↑
WEEK AGO	22.35	19.75	17.91	17.00	16.60	16.14	15.84	15.97	16.21	16.18	16.27	16.36	

HIGHEST & LOWEST DAILY SETTLE PRICE OVER LIFE OF CONTRACT *AND MONTH/YEAR IT OCCURRED*

23.44 07/20	21.50 07/20	19.13 07/20	18.05 01/20	18.01 01/20	17.95 01/20	17.67 01/20	17.67 01/20	17.85 01/20	17.40 01/20	17.30 01/20		
13.11 04/20	14.31 04/20	14.61 03/20	14.52 11/18	14.52 11/18	14.65 03/20	14.66 03/20	14.80 03/20	14.82 03/20	14.62 03/20	14.56 03/20		

*AVG = Average basis for North-East and Mid-East

MILK BASIS ($/CWT) — **PA BASIS & 2014-16 AVG OF PA/NY/VT/OH** — ***YOUR INDIVIDUAL BASIS WILL VARY (MAILBOX - CLASS 3)***

	JUL-20	AUG-20	SEP-20	OCT-20	NOV-20	DEC-20	JAN-21	FEB-21	MAR-21	APR-21	MAY-21	JUN-21
PA	1.28	1.01	0.85	1.33	1.87	1.70	2.75	2.30	1.81	1.58	1.19	1.60
*AVG	1.80	1.12	0.90	1.32	1.82	1.65	2.72	2.70	2.25	2.02	1.25	2.14

*MARGIN = Milk Price over Feed Cost per cwt. YELLOW = payment triggered

MPP/DMC OFFICIAL GROSS MARGINS *per cwt.(USDA All-Milk, com/alfalfa hay & Illinois soybean prices, feed for all classes of dairy cattle on the farm)*

DMC	APR-19	MAY-19	JUN-19	JUL-19	AUG-19	SEP-19	OCT-19	NOV-19	DEC-19	JAN-20	FEB-20	MAR-20	APR-20	*MAY-20	
	8.82	9.00	8.63	9.27	9.85	10.41	10.88	12.21	11.95	10.72	10.06	9.15	6.03	*5.37	↓↓

U.S. AVG MILK MARGIN *per 100 lbs milk based on 75-lb herd avg & USDA's All-Milk price, USDA-reported corn & alfalfa hay & Ill. soybean prices (lactating feed only)*

FEB-19	MAR-19	APR-19	MAY-19	JUN-19	JUL-19	AUG-19	SEP-19	OCT-19	NOV-19	DEC-19	JAN-20	FEB-20	*MAR-20	*APR-20	
11.00	11.63	11.61	11.76	11.82	12.52	12.94	13.39	13.98	15.29	14.94	13.86	13.18	*12.23	* 7.98	↓↓

PA AVG MILK MARGIN *per 100 lbs milk based on 75-lb herd average and USDA's PA All-Milk price, USDA corn & alfalfa hay & Buff., NY soybean prices (lactating feed only)*

10.46	10.37	11.21	11.54	11.52	11.48	12.73	13.17	13.09	13.76	13.78	13.10	12.20	*11.24	* 7.61

CLASS III MILK ($/CWT) **OPTIONS — PUTS — Daily Strike Price** / Premium

23.50	0.13	21.50	1.03	19.00	1.13	18.00	1.08	17.25	0.97	16.50	1.04	16.25	1.04	16.25	1.02	16.25	0.94	16.25	1.03	16.50	1.13	16.50	1.11

	JUL-20	SEP-20	DEC-20	MAR-21
CORN ($/BU) OPTIONS — CALLS				
	3.05 18.20	3.20 18.60	3.40 18.60	3.60 18.00
	3.35 03.70	3.80 03.20	4.10 03.60	4.40 03.40

Example Daily Strike Price / Premium

	JUL-20	SEP-20	DEC-20	MAR-21
SOYMEAL ($/TON) OPTIONS — CALLS				
	265 20.90	270 21.85	280 20.75	280 21.55
	295 02.80	320 03.00	340 03.70	360 03.40

CORN FUTURES ($/BU)

	JUL-20	SEP-20	DEC-20	MAR-21	MAY-21	JUL-21	SEP-21	DEC-21	JUL-21	SEP-21	DEC-21	MAR-22	TREND
	3.482	3.462	3.542	3.644	3.704	3.750	3.706	3.764	3.856	3.906	3.940	3.830	⇨
WEEK AGO	3.482	3.504	3.604	3.714	3.770	3.806	3.724	3.776	3.862	3.912	3.952	3.844	

SOYMEAL FUTURES ($/TON)

	JUL-20	AUG-20	SEP-20	OCT-20	DEC-20	JAN-21	MAR-21	MAY-21	JUL-21	AUG-21	SEP-21	OCT-21	TREND
	291.6	293.8	296.3	298.3	301.8	303.4	303.2	302.8	304.4	305.0	304.4	302.8	↓↓
WEEK AGO	292.7	295.5	297.9	300.1	304.6	305.6	303.9	302.6	304.3	305.2	304.9	303.3	

*=NEW

FEED = $/CWT.

IOFC = $/COW

PA MILK MARGIN & IOFC–LATEST PSU VALUES - *MAY 2020

	FEED COST ($/CWT milk)	IOFC ($/COW @ 75 lbs milk)	PA MILK MARGIN ($/CWT milk)
*MAY	*7.50↑↑	*4.61 ↓↓	*6.41 ↓↓
*PREV MO	7.48	5.71	7.61
YR AGO	7.06	8.65	11.54

CME DAIRY CASH-SETTLED FUTURES ($/LB) 07/07/20 SPOT CASH TREND

	JUL	AUG	SEP	OCT	NOV	DEC	JAN		07/07/20
NFDM	1.020	1.068	1.096	1.107	1.131	1.139	1.151	↑↑	1.0325↑↑
WHEY	0.336	0.330	0.327	0.338	0.345	0.345	0.357	↓↓	0.2875↓↓
BUTTER	1.820	1.859	1.887	1.899	1.912	1.919	1.915	↓↓	1.7375↓↓
CHEESE	2.476	2.273	2.033	1.908	1.832	1.749	1.706	↑↑	See Below

CME SPOT CHEESE: BARRELS 2.3700 / 40 LB BLOCKS 2.7100 ↓↓ / ↑↑

ANNOUNCED FEDERAL ORDER PRICES ($/CWT) *=NEW

	CL I ADV	*CL II	*CL III	*CL IV	*ALL-MILK-U.S	*ALL-MILK-PA
	16.56(JUL)↑↑	*12.99(JUN)↑↑	*21.04(JUN)↑↑	*12.90(JUN)↑↑	*13.60(MAY)↓↓ 3.87F	*14.00(MAY)↓↓ 3.88F
MONTH AGO	11.42	12.30	12.14	10.67	14.40	15.30
YEAR AGO	17.18	17.30	16.27	16.83	18.00	18.70

CURRENT FEDERAL ORDER VALUES ($/LB) * = *NEW

WEIGHTED AVG. 4-WK JUNE 1 - 27, 2020

PRODUCT	VALUE	MAKE ALLOW	NET	
*CHEESE	2.2152	0.2003	2.0149	↑↑
*BUTTER	1.7067	0.1715	1.5352	↑↑
*NFDM	0.9106	0.1678	0.7428	↑↑
*DRYWHEY	0.3638	0.1991	0.1647	↓↓

*JUNE 2020 COMPONENTS		
*PROT	4.5349	↑↑
*B.FAT	1.8591	↑↑
*N.FAT	0.7354	↑↑
*OTHER	0.1696	↓↓

**USDA MAR 2020 ** ALL-MILK BF MAILBOX

*FL	$18.60	3.67	$20.17
*APP	$19.80	3.87	$18.72
*NENG	$19.00	3.96	$18.38
*SE	$20.10	3.72	$18.35
*U.S.	$18.00	3.96	$18.03
*OH	$18.90	3.97	$18.01
*IL	$18.30	3.97	$17.92
*PAwestern	PA only		$17.91
*MN	$18.20	4.07	$17.90
*IN	$18.00	3.95	$17.75
PAeast	$18.90	3.96	$17.60
*NY	$18.50	3.95	$17.58
*IA	$19.00	4.06	$17.36
*WI	$18.10	3.94	$16.93
*TX	$18.30	4.25	$16.63
*MI	$16.60	3.85	$15.78
*NM	$15.40	3.84	$14.46

CATTLE - DAIRY PURPOSES ($/HD) **NORTHEAST** (Avg. JULY 8, 2020 sale New Holland, PA) *REPORTS HAVE RESUMED/MARKET HIGHER

	COWS Fresh	Bred	Springing	HEIFERS: Bred	Beef x (bred)	Springing Open: 300-600 lbs	Beef X	600-900 lbs	800-1200 lbs	BULLS (600-1800 lb)
	1275	1050	1365	1025	N/A	1225	425	N/A	575	805	1310
MARCH COMPARISON	1075	950	850	750	N/A	850	300	N/A	475	600	750

Price averages do not include lower-end 'common' cows and heifers.

Avg. of prices reported by USDA Market News for PA Auction Markets July 2-7, 2020

CULL MARKET COWS ($/CWT LIVEWEIGHT)

	Premium White	Breakers	Boners	Lean	
	N/A	71.00 ↑↑	69.25 ↑↑	62.85 ↑↑	
8 WEEKS AGO	N/A	70.75	68.50	59.25	
YEAR AGO	N/A	67.00	65.00	55.50	

Average to high dressing

FED HOLSTEIN STEERS ($/CWT LIVEWEIGHT)

	CURRENT	Beef X	WEEK AGO	YR AGO	
Choice & Prime 1250-1550 lbs light test	78.00		80.00	N/A	↓↓
BULL CALVES: No. 1 & 2, 90-130 lbs	105.00	215.00	100.00	60.00	↑↑
70-85 lbs	95.00	250.00	90.00	20.00	↑↑

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