



## Looking Ahead to 2021 Milk Markets

A series of intertwined events combined to make 2020 a year never experienced before in milk marketing. As the year played out, challenges of the Federal Milk Marketing Order (FMMO) system to accurately reflect market conditions to producers became apparent. What changes might 2021 bring to both milk markets and FMMOs?

During the first week of January 2020, milk markets were poised to be boring and uneventful. Class III futures prices traded in a range between \$17.00/cwt. and \$18.00/cwt. for all 12 months. Class IV futures prices were very similar. However, reality turned out to be much different. The Class III price dropped to \$12.14/cwt. in May and then set a record high of \$24.54 just two months later. The Class IV price also experienced a tremendous price decline, falling to \$10.67/cwt. in May, but it only recovered to \$13.76/cwt in July and never advanced higher.

The COVID-19 pandemic caused the extreme volatility, which began to impact the national economy in earnest in March. As demand from the food service sector disappeared virtually overnight, the industry had too much milk, too much product, and prices for both cratered. With every crisis comes opportunity, and producers, processors, and USDA responded quickly to the over-supply situation. Co-ops implemented base-excess plans to curb production. With cheese at bargain basement prices, manufacturers found ample export opportunities. USDA initiated the Farmers to Families Food Box Program to both create demand for product and provide nutrition to a needy population. The combination of the three programs created a shortage of fresh cheese, and prices for block cheese at the Chicago Mercantile Exchange (CME) skyrocketed from \$1.00/lb. to \$3.00/lb. in eight weeks. The CME cheese price, in turn, caused the Class III price to increase sharply, which led to class price relationships never previously observed in the FMMOs.

Three specific aspects of FMMO pricing garnered the most attention; the Class I price, negative producer price differentials (PPDs),

and depooling. The issues are interrelated. The Class I price formula was changed in the 2018 Farm Bill to be the average of Class III and IV, plus \$0.74/cwt. instead of being the higher of the Class III or IV price. When Class III prices became much higher than Class IV, the Class I price was less than Class III, resulting in negative PPDs. Class III handlers responded to negative PPDs by not pooling massive volumes of milk (depooling) from June through November. The result was that federal order Uniform Prices did not fully reflect the value of Class III milk those months.

Changes can be expected during 2021 in both milk markets and federal orders. The price relationship between Class III and IV will likely normalize for two reasons. First, the Food Box program is expected to wind down, and the government will not be purchasing nearly as much cheese as last year. Second, cheese processing capacity is expanding significantly, led by a plant being commissioned in Michigan with the capacity to increase U.S. cheese production by approximately 2.4%. Both developments will keep cheese prices, and therefore Class III prices, in check.

The issues affecting federal orders may be addressed by two national hearings. One would consider changes to the Class I price formula with the objective to enhance the Class I price. That would limit the occasions when PPDs are negative and manufacturing milk is depooled. A second hearing would propose to amend the make allowances used in the product price formulas. Make allowances haven't been updated since 2009.

National All-Jersey Inc. (NAJ) is fully engaged with industry representatives as potential modifications to federal orders are developed and considered. In addition, NAJ will approach the hearings from the standpoint of:

1. Are there issues that have a Jersey specific angle? If so, NAJ will get involved.
2. Are there issues that do not have a Jersey specific angle, but have broad industry support? If so, NAJ will get involved.
3. However, any issues that aren't Jersey specific and do not have broad industry support will be left alone.



THE JERSEY by Bonnie L. Mohr, commissioned by the American Jersey Cattle Association.  
Copyright © American Jersey Cattle Association 2018 All Rights Reserved