NAJ Equity Newsletter

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National All-Jersey's FMMO Hearing Proposals

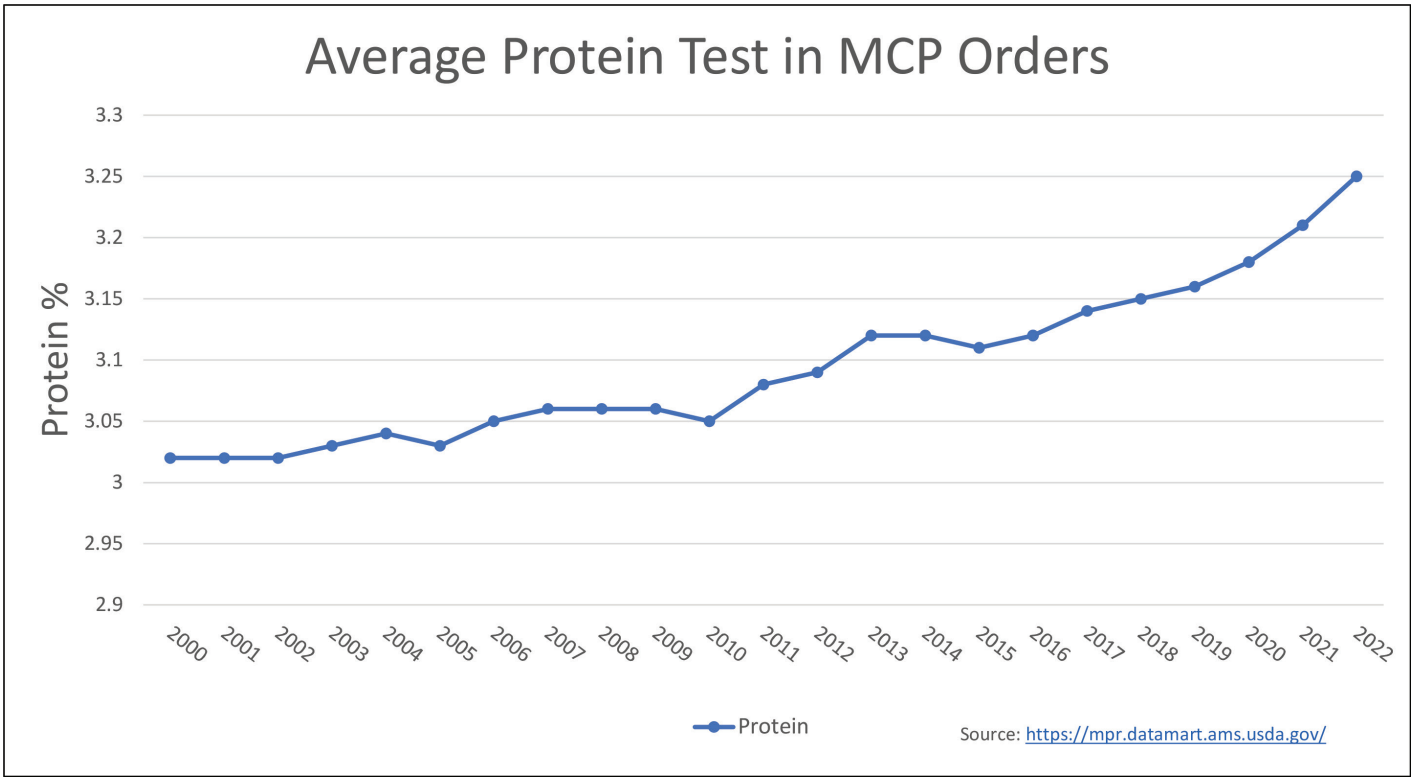
Following many months of deliberation, in early May the National Milk Producers Federation (NMPF) requested USDA to initiate a hearing to amend the uniform pricing provisions of all federal milk marketing orders. In response, USDA invited other interested industry partners to submit additional proposals. Twelve organizations submitted a total of 38 proposals, including three from National All-Jersey Inc. (NAJ).

One of NMPF's proposals is to update the skim solids factors used in the Class III and Class IV skim milk price formulas. The primary functions of the skim milk price formulas are to set the Class I skim milk price. The equations are:

Class III skim milk price = (protein price * 3.1) + (other solids price * 5.9)

Class IV skim milk price = nonfat solids price * 9.0

The Class I skim price is the average of the advance Classes III and IV skim prices, plus $0.74 per hundredweight. The factors of 3.1 for protein, 5.9 for other solids, and 9.0 for nonfat solids were established in 2000. Over the past 23 years through genetics, feeding, and other herd management practices, producers have significantly increased skim milk components, primarily protein. The ultimate impact of updating the component factors will be that the Class I price will more nearly reflect actual



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components. Additionally, these component factors determine the value of Classes II, III, and IV in the four remaining fat-skim orders, Appalachian, Arizona, Florida, and Southeast.

NMPF's proposes to update the component factors every three years based on national component averages of the previous three years. NAJ's analysis shows protein content increasing quickly. In 2020 skim protein in the seven MCP orders average 3.30%. Two years later it had increased to 3.39%. A three-year average updated every three years will cause the factors to lag actual producer components. Accordingly, NAJ's first proposal is to update the component factors annually based on the previous year's components.

NAJ's second proposal is to price Class I on actual milk components instead of using national average component factors across all orders. Component content varies widely across the orders, and national averages under-represent the actual components in some areas of the country and over-represent actual components in other areas. Furthermore, producers in the fat-skim orders have no incentive to increase their protein because they do not get paid for it. Meanwhile, producers in the MCP orders can be expected to continue to increase their protein which in turn will raise the national protein and nonfat solids factors used in the Class I price. Producers in the fat-skim orders will benefit from the higher Class I prices resulting from the increased protein in the MCP orders even though the fat-skim orders will not have increased their components. The equitable solution is to price Class I on its actual components.

NAJ's third proposal is to expand multiple component pricing (MCP) to all federal orders. The three southeastern orders and the Arizona order still price milk on a skim-fat basis. The manufacturing milk in those orders is undervalued by being priced on fat-skim.

Furthermore, the three southeast orders are deficit for their fluid needs and require supplemental milk from outside the orders. The lack of MCP serves as an impediment to securing outside milk because it loses its component value when priced on the fat-skim basis. The NMPF proposal states:

Three of the non-MCP orders, Appalachian, Florida and Southeast do not have an adequate supply of producer milk within their marketing areas to meet consumer fluid milk demand. Supplemental milk must be transported into these markets to meet this demand. The supplemental milk is typically supplied from federal orders using MCP. The higher relative value of skim milk in MCP versus non-MCP markets increases the cost of supplemental milk for the non-MCP, deficit fluid milk markets. In addition, it decreases the incentive to move milk from reserve supply areas to deficit fluid milk markets. Both make it more costly and difficult to ensure consumers have access to an adequate supply of fluid milk.

However, NMPF doesn't choose to address the problem by implementing MCP, but rather by updating the Class III and Class IV skim milk component factors. If the lack of MCP is the problem, then the most direct solution is to implement MCP, and that's exactly what NAJ has done.

The next step in the hearing process is for USDA to decide which of the 38 proposals submitted will be included in the hearing. Their decision is expected by late July. Following the notice of hearing, NAJ will analyze the accepted proposals and their potential impact, particularly on high component milk.

The hearing will begin in late August in Carmel, Indiana, and is expected to last six to eight weeks.

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NAJ Milk & Component Outlook - *May 2023 Jersey Price Comparisons*

May '23 STATISTICAL BLEND PRICE

Northeast (Boston)	$19.46
Appalachian (Charlotte)	$21.72
Southeast (Atlanta)	$22.18
Florida (Tampa)	$23.95
Mideast (Cleveland)	$18.21
Upper Midwest (Chicago)	$16.49
Central (Kansas City)	$17.74
California (Los Angeles)	$17.66
Southwest (Dallas)	$18.42
Arizona (Phoenix)	$18.65
Pacific Northwest (Seattle)	$17.81
ALL FMMO MARKET AVERAGE	**$19.30**

Prices reflect Federal Order minimum blend prices for city shown.

May '23 MONTHLY MILK VOLUME (Million #)

Northeast (Boston)	2,403
Appalachian (Charlotte)	542
Southeast (Atlanta)	307
Florida (Tampa)	208
Mideast (Cleveland)	1,563
Upper Midwest (Chicago)	2,791
Central (Kansas City)	1,359
California (Los Angeles)	2,046
Southwest (Dallas)	1,174
Arizona (Phoenix)	428
Pacific Northwest (Seattle)	736
ALL FMMO MARKET TOTAL	**13,559**

Total Grade A milk volume sold under FMMO during month.

May '23 JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$22.92
Appalachian (Charlotte)	$24.44
Southeast (Atlanta)	$25.23
Florida (Tampa)	$27.01
Mideast (Cleveland)	$21.73
Upper Midwest (Chicago)	$19.68
Central (Kansas City)	$21.21
California (Los Angeles)	$18.70
Southwest (Dallas)	$21.79
Arizona (Phoenix)	$21.64
Pacific Northwest (Seattle)	$20.61
ALL FMMO MARKET AVERAGE	**$22.27**

Prices reflect FMMO minimum prices at Jersey component values.

May, '23 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$23.18
Appalachian (Charlotte) (includes protein prem.)	$24.80
Southeast (Atlanta)	$25.23
Florida (Tampa)	$27.01
Mideast (Cleveland) (includes protein premium)	$22.22
Upper Midwest (Chicago) (includes cy premium)	$19.95
Central (Kansas City)	$21.21
California (Los Angeles)	$18.70
Southwest (Dallas)	$21.79
Arizona (Phoenix) (includes protein)	$21.99
Pacific Northwest (Seattle)	$20.61
ALL FMMO MARKET AVERAGE	**$22.43**

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

May '23 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$3.72
Appalachian (Charlotte)	$3.08
Southeast (Atlanta)	$3.05
Florida (Tampa)	$3.06
Mideast (Cleveland)	$4.01
Upper Midwest (Chicago)	$3.46
Central (Kansas City)	$3.47
California (Los Angeles)	$1.04
Southwest (Dallas)	$3.37
Arizona (Phoenix)	$3.34
Pacific Northwest (Seattle)	$2.80
ALL FMMO MARKET AVERAGE	**$3.13**

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

May '23 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	19.1%
Appalachian (Charlotte)	14.2%
Southeast (Atlanta)	13.7%
Florida (Tampa)	12.8%
Mideast (Cleveland)	22.0%
Upper Midwest (Chicago)	21.0%
Central (Kansas City)	19.5%
California (Los Angeles)	5.9%
Southwest (Dallas)	18.3%
Arizona (Phoenix)	17.9%
Pacific Northwest (Seattle)	15.7%
ALL FMMO MARKET AVERAGE	**16.4%**

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

ESTIMATED JERSEY MILK COMPOSITION — May-23

Butterfat	4.88
TRUE Protein	3.81
Other Solids	5.73
Solids Not Fat (SNF)	9.54
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.09
CME Block Cheese Price	$ 1.57

REGULATED MILK PRICES — May-23

FMMO Milkfat	$ 2.7572
FMMO True Protein	$ 1.8002
FMMO Other Solids	$ 0.1877

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT: — May-23

FMMO Milkfat Adjustment	$2.52
FMMO True Protein Adjustment	$1.05
FMMO Other Solids Adjustment	($0.01)

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NAJ Milk & Component Outlook - *2023 Prices through May*

2023 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

Northeast (Boston)	$20.34
Appalachian (Charlotte)	$22.22
Southeast (Atlanta)	$22.72
Florida (Tampa)	$24.40
Mideast (Cleveland)	$19.16
Upper Midwest (Chicago)	$18.26
Central (Kansas City)	$18.78
California (Los Angeles)	$18.95
Southwest (Dallas)	$19.61
Arizona (Phoenix)	$19.60
Pacific Northwest (Seattle)	$18.76
ALL FMMO MARKET AVERAGE	**$20.26**

Prices reflect Federal Order minimum blend prices for city shown.

2023 MILK VOLUME (Million #)

Northeast (Boston)	11,488
Appalachian (Charlotte)	2,385
Southeast (Atlanta)	1,539
Florida (Tampa)	1,066
Mideast (Cleveland)	7,749
Upper Midwest (Chicago)	14,061
Central (Kansas City)	7,229
California (Los Angeles)	12,105
Southwest (Dallas)	6,019
Arizona (Phoenix)	2,219
Pacific Northwest (Seattle)	3,418
ALL FMMO MARKET TOTAL	**69,278**

Total Grade A milk volume sold under FMMO.

2023 AVERAGE JERSEY REGULATED BLEND PRICE

Northeast (Boston)	$24.37
Appalachian (Charlotte)	$25.54
Southeast (Atlanta)	$26.06
Florida (Tampa)	$27.81
Mideast (Cleveland)	$23.23
Upper Midwest (Chicago)	$21.91
Central (Kansas City)	$22.47
California (Los Angeles)	$20.42
Southwest (Dallas)	$23.20
Arizona (Phoenix)	$22.85
Pacific Northwest (Seattle)	$21.74
ALL FMMO MARKET AVERAGE	**$23.60**

Prices reflect FMMO minimum prices at Jersey component values.

2023 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	$24.65
Appalachian (Charlotte) (includes protein prem.)	$25.93
Southeast (Atlanta)	$26.06
Florida (Tampa)	$27.81
Mideast (Cleveland) (includes protein premium)	$23.78
Upper Midwest (Chicago) (includes cy premium)	$22.20
Central (Kansas City)	$22.47
California (Los Angeles)	$20.42
Southwest (Dallas)	$23.20
Arizona (Phoenix) (includes protein)	$23.25
Pacific Northwest (Seattle)	$21.74
ALL FMMO MARKET AVERAGE	**$23.77**

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

2023 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	$4.30
Appalachian (Charlotte)	$3.29
Southeast (Atlanta)	$3.02
Florida (Tampa)	$3.42
Mideast (Cleveland)	$4.58
Upper Midwest (Chicago)	$3.96
Central (Kansas City)	$3.69
California (Los Angeles)	$1.48
Southwest (Dallas)	$3.61
Arizona (Phoenix)	$3.64
Pacific Northwest (Seattle)	$2.98
ALL FMMO MARKET AVERAGE	**$3.45**

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

2023 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	21.1%
Appalachian (Charlotte)	14.5%
Southeast (Atlanta)	13.0%
Florida (Tampa)	14.0%
Mideast (Cleveland)	23.8%
Upper Midwest (Chicago)	21.7%
Central (Kansas City)	19.7%
California (Los Angeles)	7.7%
Southwest (Dallas)	18.4%
Arizona (Phoenix)	18.6%
Pacific Northwest (Seattle)	15.9%
ALL FMMO MARKET AVERAGE	**17.1%**

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

ESTIMATED JERSEY MILK COMPOSITION	2023
Butterfat	5.00
TRUE Protein	3.89
Other Solids	5.73
Solids Not Fat (SNF)	9.62
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.39
CME Block Cheese Price	$1.83

REGULATED MILK PRICES	2023
FMMO Milkfat	$2.7354
FMMO True Protein	$2.3880
FMMO Other Solids	$0.2228

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:	2023
FMMO Milkfat Adjustment	$2.49
FMMO True Protein Adjustment	$1.38
FMMO Other Solids Adjustment	($0.01)

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