

ASB New Zealand Commodity Price Indices

As at Friday 30th June 2017

	Index *	1 Week %	Year % **
Total NZD	175.6	-0.9%	16.8%
Total SDR	192.7	-0.9%	19.7%
Total USD	194.8	-0.2%	19.3%
Dairy USD	202.0	-1.5%	45.7%
Sheep/beef USD	221.9	0.5%	8.6%
Forestry USD	174.1	0.3%	8.3%
NZD/USD	0.7334	0.6%	2.1%

* For all indices 1997 average = 100

** Percentage change since same week last year

Dairy production ends season down after many twists and turns

All up, 2016/17 season production has ended down 0.6% on the 2015/16 season. This fall makes it two consecutive seasons of falling production, following 2015/16's 1.4% fall.

Indeed, two seasons of back-to-back production falls is unique. In other words, the data we have on record, dating back to 1981, show that this is the first time production has fallen two seasons in a row.

The 2016/17 season has also been unique for its twists and turns.

For example, the season started, with Fonterra's milk price forecast at a low \$4.25/kg. However, the forecast turned around as we predicted, with Fonterra lifting the forecast incrementally, hitting \$6.00/kg back in November, lifting again to \$6.15/kg in May.

The weather has also thrown a variety of challenges farmers' ways.

First up, last spring was extremely wet, reducing pasture quality and production in turn. For example, during October production fell as low 6% behind same month in 2015. **But there were more weather surprises to come.** Summer threw up excellent growing conditions. Production rebounded and then some, hitting as high as 10% above 2015 levels in March. The season then ended with some of the heaviest rain on record, contributing to slower production growth; by May production growth was marginally ahead of May 2015.

We expect a more average season over 2017/18. In particular, with the milk price outlook firm (we forecast \$6.75/kg) we expect 4% production lift compared to last season. However, it is still early days in the season and as always NZ weather has the ability to surprise.

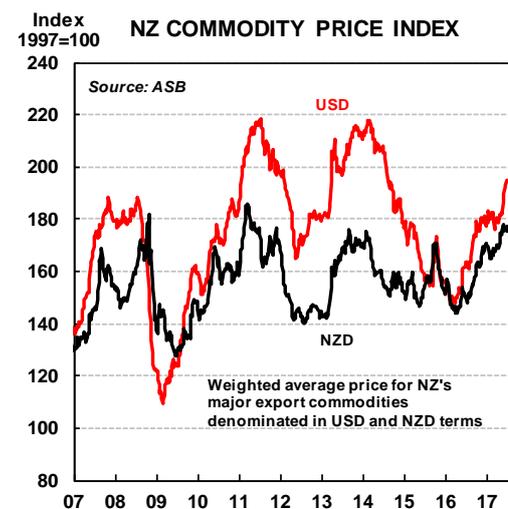
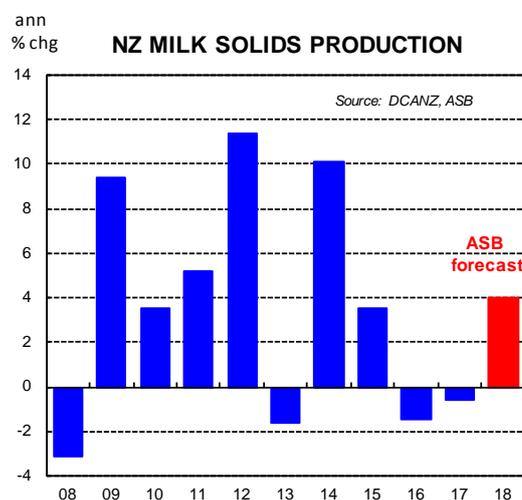
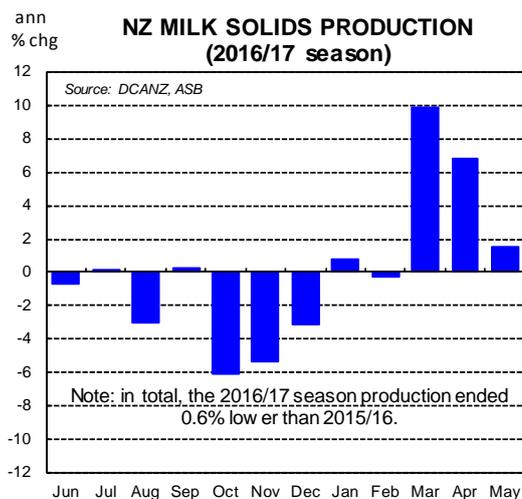
ASB NZ Commodity Price Index & Currency Markets

NZ commodity prices fell in all denominations last week. Lower dairy prices accounted for the move, dipping 1.5% in USD terms. The overall

dairy price weakness spilled over to this week's dairy auction. However, whole milk powder prices bucked the trend, lifting 2.6%. Meanwhile, sheep/beef and forestry prices extended their recent winning streaks, rising 0.5% and 0.3%, respectively.

The NZD hit a 5-month high against the USD last week, as US political developments contributed to a weaker USD.

However, the NZD fell against most other major currencies we monitor, particularly against the NZD/EUR. This week the NZD has softened a little against the USD. As at the time of writing, **the NZD was trading at US\$0.7290.**



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