

ASB New Zealand Commodity Price Indices As at Friday 3rd March 2017

	Index *	1 Week %	Year % **
Total NZD	168.5	1.2%	15.5%
Total SDR	183.3	-0.7%	23.0%
Total USD	179.4	-1.1%	19.3%
Dairy USD	193.6	-0.6%	50.1%
Sheep/beef USD	188.9	-2.0%	5.2%
Forestry USD	162.6	-1.1%	7.1%
NZD/USD	0.7042	-2.2%	3.3%

* For all indices 1997 average = 100

** Percentage change since same week last year

We trim our 2016/17 milk price forecast by 50 cents to \$6.00/kg

On the back of better-than-expected NZ dairy production this season, we have revised our 2016/17 forecast down by 50 cents to \$6.00/kg. This summer has been a good one for the key NZ dairying regions. In fact, recent rain and moderate temperatures have helped farmers recoup some of the early season production losses. For example, we recently lifted our production forecast for the season to a 2% decline on last season, from a 5% drop forecast at one stage.

However, higher production is a double-edged sword. That is more than anticipated milk quickly translates into lower dairy prices.

It is not surprising then that dairy prices have been weak so far this year. Over January and February, whole milk powder (WMP) prices had already fallen 10% from where they finished 2016. The 12.4% WMP price fall at this week's auction result then added an exclamation mark to this year's decline.

That said, weather can only have a temporary impact on production and prices – eventually dairy fundamentals kick back in. On that front, we retain our positive outlook for the milk price over the medium term. And with the global dairy outlook positive, we expect relatively healthy global dairy prices over the second half of 2017 and beyond.

As a result, we retain our \$6.75/kg forecast for 2017/18.

ASB NZ Commodity Price Index

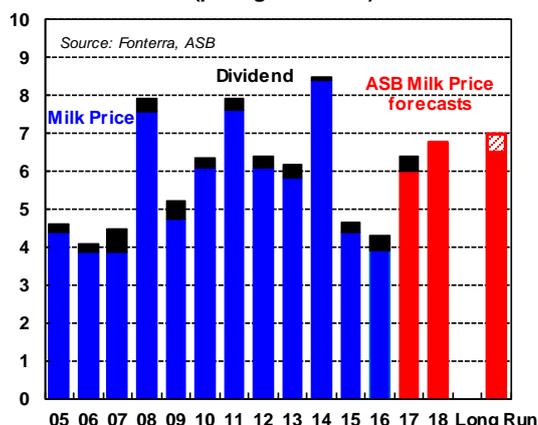
The ASB Commodity Price Index fell 1.1% in USD terms last week, pulled down by lower meat prices. However, a weak NZ dollar offset this fall, and the index actually rose in NZD terms.

Looking at the components, lamb and beef prices fell 2.2% each in USD terms last week while wool prices slipped 0.3%. The dairy index also went into reverse, with the fall accelerated at this week's GlobalDairyTrade auction. Overall auction prices dipped 6.3%, while whole milk powder slid 12.4%. Meanwhile, falling log prices led to a 1.1% decline in the forestry index.

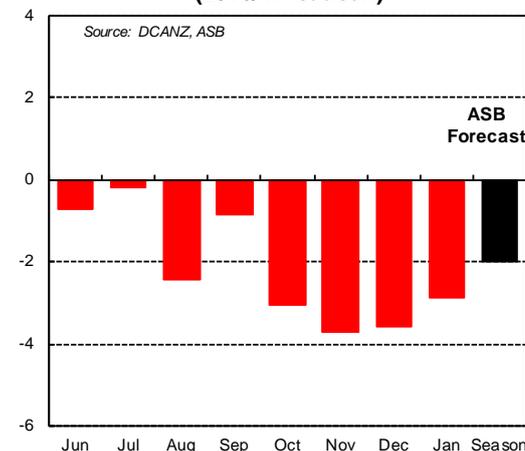
Currency markets

Comments from US Federal Reserve officials last week have increased expectations for a rise in key US interest rates. These comments, coupled with lower dairy prices at this week's dairy auction, have pushed the NZD currency lower against the USD. As at the time of writing, the NZD was trading at US\$0.6898.

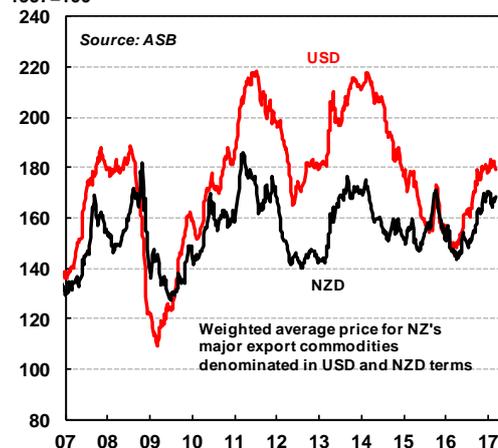
MILK PRICE AND DIVIDENDS
(per kg milksolid)



MILK SOLIDS PRODUCTION
(2016/17 season)



NZ COMMODITY PRICE INDEX



ASB Economics & Research

Phone

Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Wealth Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Economist	Daniel Snowden	daniel.snowden@asb.co.nz	(649) 301 5657
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660



ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

<https://reports.asb.co.nz/index.html>[@ASBMarkets](https://twitter.com/ASBMarkets)

Important Disclosures

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.