

ASB New Zealand Commodity Price Indices As at Friday 17th February 2017

	Index *	1 Week %	Year % **
Total NZD	167.6	0.2%	14.1%
Total SDR	185.4	0.1%	27.5%
Total USD	182.4	0.2%	23.7%
Dairy USD	198.5	0.0%	55.3%
Sheep/beef USD	192.1	0.1%	11.1%
Forestry USD	164.3	0.8%	9.6%
NZD/USD	0.7195	-0.1%	8.5%

* For all indices 1997 average = 100

** Percentage change since same week last year

Weather risks largely off the table

The outlook for NZ dairy production has improved. Indeed, after a very poor spring, summer has seen generally favourable growing conditions in the key dairying regions. The improving conditions have helped farmers partially offset some of the earlier production losses. For example, January production lifted 0.8% compared to January 2016, whereas October was over 6% behind October 2016.

As a result, **we have lifted our nationwide production (i.e. for all dairy companies) forecast** for a second time to a 2% decline (from a 5% decline at the start of the season). Meanwhile similarly last week, Fonterra increased its milk collections forecast from a drop of 7% to a more modest 5% fall.

Moreover, this season's weather risks have largely receded. With recent rain in most parts of the country and autumn around the corner, the improvements in production are likely to be maintained over the remainder of the season.

As a result of the improved production outlook, **we expect dairy prices may soften further over the coming month or two.** However over a longer period, we expect prices to remain firm. For example, we expect whole milk powder prices to remain well-supported in the low US\$3,000's/MT.

Fonterra reaffirms 2016/17 milk price at \$6.00/kg

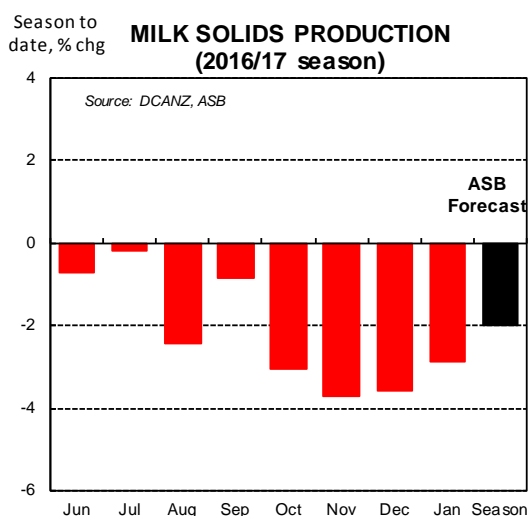
Meanwhile, Fonterra reaffirmed its 2016/17 milk price forecast at \$6.00/kg yesterday. While Fonterra wasn't prepared to lift the forecast, the fact that it was prepared to increase the level of monthly payments to farmers signalled a degree of underlying confidence. Moreover, in its commentary Fonterra stated, "the global outlook for dairy remains positive."

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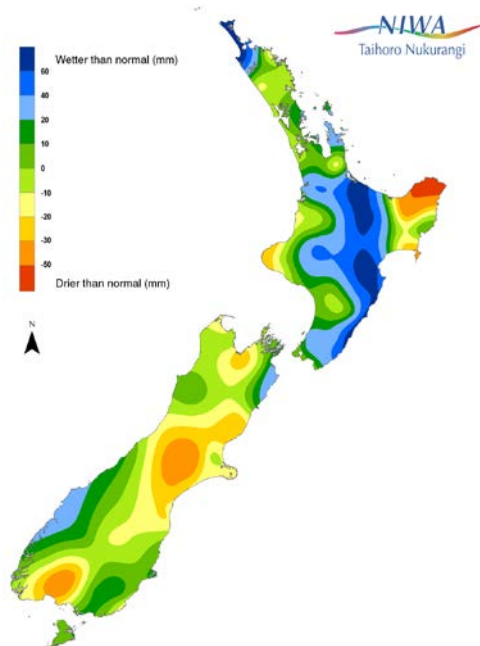
A 6% jump in wool prices drove much of the 0.2% lift in NZ commodity prices last week. Looking at other components, meat prices fell, with lamb and beef slipping 0.9% and 0.1%, respectively. While dairy prices stayed put last week, this week's Global Dairy Trade auction saw overall prices dip 3.2% on the back of a much-improved NZ production outlook. Meanwhile, forestry prices picked up as log prices recovered from last week's fall to end the week 1.7% higher.

Currency markets

The NZD was largely unchanged against the USD last week. This week the local currency firmed, and at the time of writing, was trading at US\$0.7230.



Soil moisture anomaly (mm) at 9am on 23/02/2017



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