

ASB New Zealand Commodity Price Indices As at Friday 19th May 2017

	Index *	1 Week %	Year % **
Total NZD	177.9	1.4%	17.8%
Total SDR	185.6	1.3%	22.6%
Total USD	186.3	2.3%	20.6%
Dairy USD	200.4	4.3%	51.9%
Sheep/beef USD	199.6	1.3%	5.1%
Forestry USD	167.7	0.9%	9.4%
NZD/USD	0.6927	0.9%	2.3%

* For all indices 1997 average = 100

** Percentage change since same week last year

Fonterra sets 2017/18 milk price forecast at a bullish \$6.50/kg

This week, Fonterra announced a bullish first cut at next season's milk price of \$6.50/kg milk solids. In contrast, we had thought that Fonterra may set its opening forecast closer to \$6.00/kg. Indeed, at the same juncture in previous seasons, Fonterra has tended to err on the cautious side in its opening forecasts. Beyond the opening forecast, we expect the milk price to end the season at \$6.75/kg.

While the headline milk price forecast was on the bullish side, Fonterra balanced that by setting monthly advance payments at a more conservative level. Specifically, initial advances have been set at \$3.70/kg (excluding capacity adjustments); this is 57% of the milk price forecast and compares to 59% at this stage last season.

Meanwhile, the current season forecast has been lifted by 15 cents to \$6.15/kg, more or less in line with expectations. In addition, Fonterra has retained its earnings guidance of 45-55 cents per share and its cash dividend target of 40 cents.

At the margin, this is likely to add to activity more generally in the sector. The announcement also gives farmers a firm production signal for the season ahead. And with that in mind, the recovery in production may be sooner and stronger (weather permitting) than we anticipated previously. In turn, stronger production may cap any upside to our own season-end milk price forecast of \$6.75/kg.

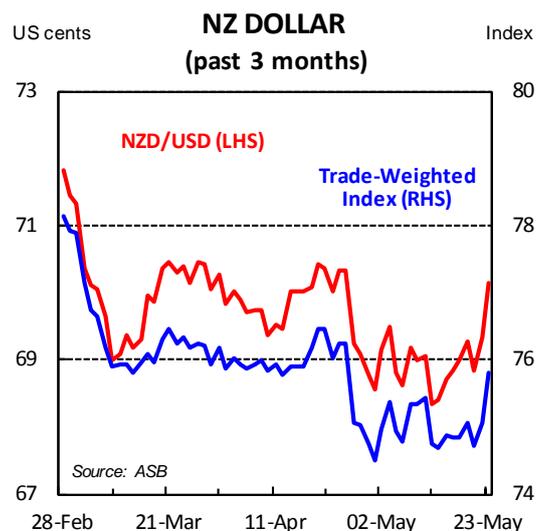
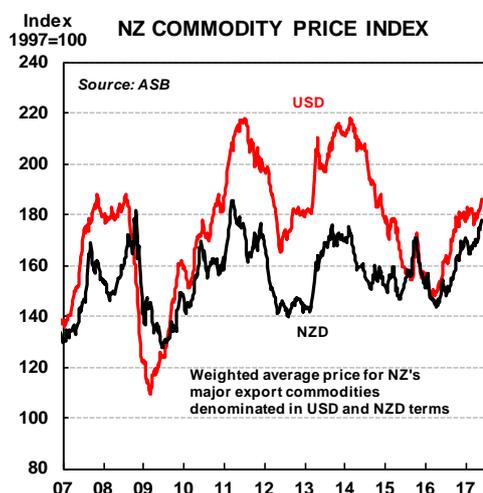
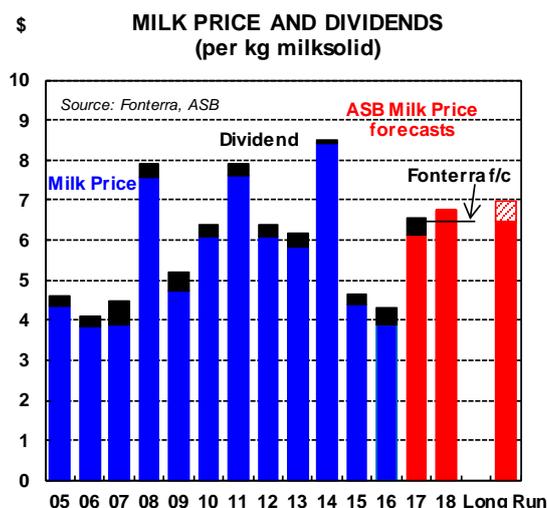
ASB NZ Commodity Price Index

NZ commodity prices rose across the board last week, supported by a 4% jump in dairy prices. Taking a closer look, the dairy index was underpinned by a whopping 11.6% surge in butter prices, the largest weekly price increase since September 2016.

The other main components also followed suit, posting gains last week. The sheep/beef index climbed 1.3%, with both lamb and beef rising 1.4%, respectively. Meanwhile, the forestry index lifted a more modest 0.9%, on the back of log prices.

Currency Markets

The NZD lifted last week as the USD weakened on soft economic data and US political drama. The NZD gained further this week; as at the time of writing, the NZD was trading at US\$0.7010.



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