

ASB New Zealand Commodity Price Indices As at Friday 21st July 2017

	Index *	1 Week %	Year % **
Total NZD	174.6	-0.6%	15.0%
Total SDR	193.2	0.3%	20.8%
Total USD	196.8	0.9%	22.5%
Dairy USD	204.9	0.8%	49.0%
Sheep/beef USD	224.6	1.5%	12.6%
Forestry USD	175.7	0.8%	11.1%
NZD/USD	0.7456	1.5%	6.5%

* For all indices 1997 average = 100

** Percentage change since same week last year

Fonterra lifts 2017/18 milk price forecast to \$6.75/kg

Yesterday, Fonterra increased its 2017/18 milk price forecast to \$6.75/kg of milk solids, in line with our long-held forecast. Fonterra noted that global demand for dairy is strengthening.

The fact that Fonterra has lifted its forecast so early in the season suggests some further upside to this new milk price forecast. In fact, despite the upgrade, Fonterra still stated that its forecast is “prudent”. We agree and note that current commodity market prices are consistent with a milk price around the \$7.00/kg mark.

The recent market strength appears increasingly led by demand for butter and other milk fats. And with inventories low and suppliers struggling to meet this demand, we expect prices to remain firm in the short-term, if not, for the rest of the year.

We are, however, mindful that the stronger milk price may spur NZ dairy supply growth in excess of what we currently anticipate, kick-starting the next dairy cycle. In turn and while we remain bullish on this season’s milk price, we see a growing risk that the 2018/19 season milk price is low.

Meanwhile, the other downside risk now in play is a stronger NZD. Indeed, the NZD has risen above US\$0.75 this week. However, for now, healthy commodity prices largely offset the NZD strength.

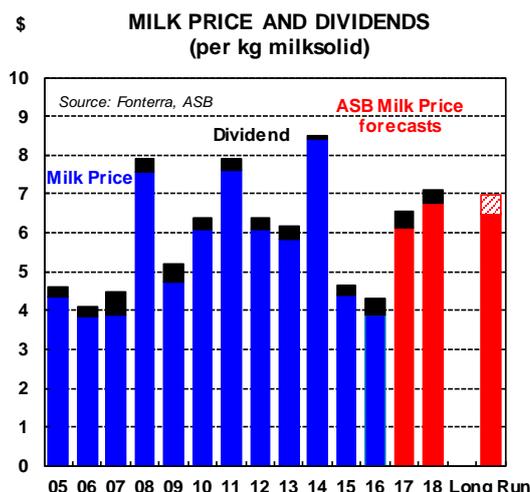
All up though, the Fonterra announcement reinforces the positive dairy outlook for the 2017/18 season and beyond.

ASB NZ Commodity Price Index

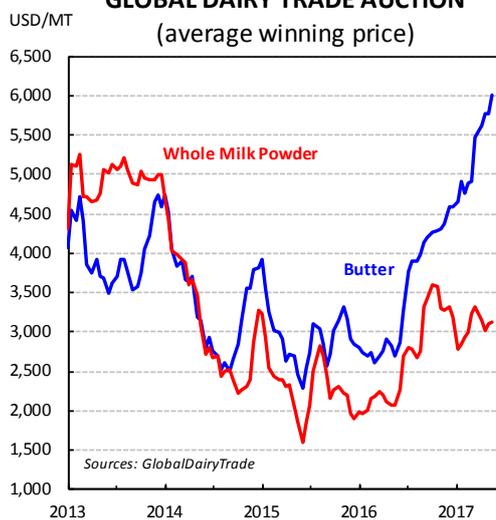
NZ commodity prices continued to head up in USD terms. However, a stronger NZD offset this rise, with the index actually falling in NZD terms. Taking a closer look, the Sheep/Beef index posted gains with all three components – wool, lamb and beef – rising 1.5% in USD terms. Dairy prices also increased 0.8% overall, as strong butter and cheddar cheese prices more than offset declines in whole and skim milk powders. Meanwhile, forestry prices rose 0.8% on the back of a 1.8% rise in log prices.

Currency Markets

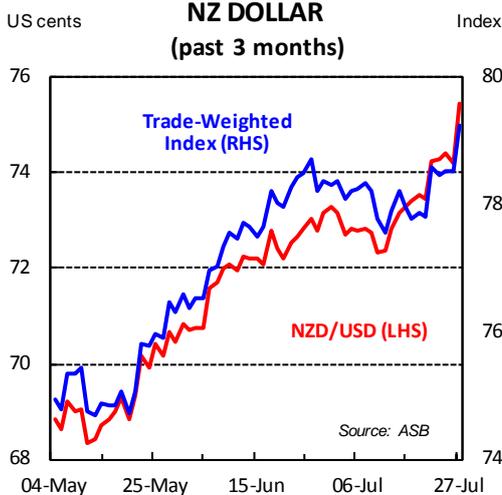
The NZD rose last week, bolstered by comments by the Finance Minister that a “higher NZD reflects a strong economy”. This week the Kiwi has held on to gains, and as at the time of writing, **was trading at around US\$0.7490.**



GLOBAL DAIRY TRADE AUCTION (average winning price)



NZ DOLLAR (past 3 months)



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