

Commodities Weekly

For the week ending Friday 28th August



Fonterra sticks with wide forecast range for 20/21

The ASB Commodity Price Index was down 1.4% in NZD terms last week, with a strong 3.1% lift in the NZD the main mover over the week. The index was up 1.7% in USD terms and 1.0% in SDR terms.

The NZD was up against all the major crosses last week, although gains against the AUD were slight. The lift comes against a backdrop of relatively buoyant global investor sentiment which also saw equities lift and interest rates climb higher. Global investor sentiment has been buoyed by the combination of massive policy stimulus, strong US economic data, diffusing trade tensions, and the hopes that a vaccine for COVID-19 will be developed. The direction of global risk sentiment is expected to remain a key barometer for future NZD direction.

USD dairy prices were flat within the index last week, but those prices pre-date the GDT auction overnight, in which prices were modestly lower. Meat prices were little changed in NZD terms last week.

At the first Global Dairy Trade Event for September the overall GDT Price index declined another 1.0%. Whole milk powder prices declined another 2%, with the weighted average price slipping to US \$2884 /MT.

Oceania whole milk powder prices are finding a floor around \$2,800-\$2,900/MT at the last three events (see chart to the right), which is on the soft side of our longer-term price expectations within our 20/21 season forecast. Accordingly, our forecast of \$6.75 for the season ahead is under some pressure, and the risks are skewed to the downside at present.

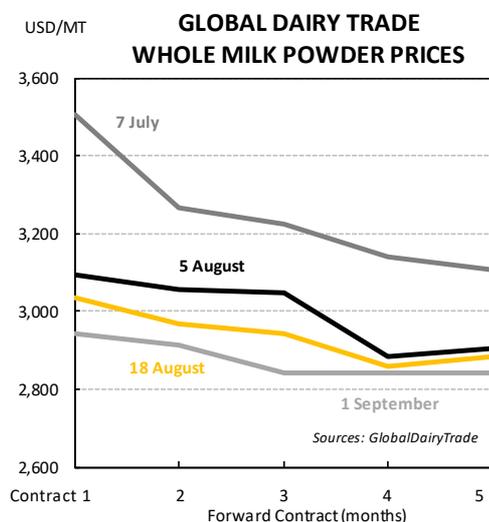
ASB New Zealand Commodity Price Indices As at Friday 28th August 2020

	Index*	Week %	Year %**
Total NZD	100.3	-1.4%	-6.9%
Total SDR	93.8	1.0%	-4.1%
Total USD	95.8	1.7%	-0.5%
Dairy USD	94.3	0.0%	-2.9%
Sheep/beef USD	97.1	3.0%	-6.1%
Forestry USD	91.5	3.1%	8.4%
Fruit USD	101.1	3.1%	8.1%
NZD/USD	0.6736	3.1%	6.8%

* For all indices 2017 average = 100

** Percentage change since same week last year

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-2.0%	-5.6%	2,884
Skim Milk Powder	1.8%	5.4%	2,663
Anhydrous Milk Fat	-0.5%	-23.6%	3,852
Butter	-1.2%	-18.7%	3,334
GDT Price Index	-1.0%	1.9%	n.a.



Separate to the GDT auction, on 1st September Fonterra maintained the previous forecast range for the 2020/21 season of \$5.90 - \$6.90 per kgMS (as announced last month).

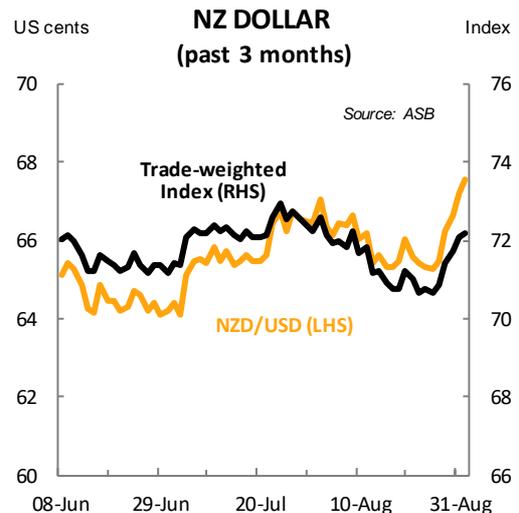
	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.10-\$7.20	\$7.15	\$6.75	\$6.50-\$7.50

* per kg of milk solids (excluding dividend).

Fonterra will confirm the final Farmgate Milk Price for the 2019/20 season on 18 September, when delivering its annual results. The advance rate paid to farmers for the new season remains at \$6.40, the mid-point of the forecast range. In the press release Fonterra notes that the global market is finely balanced now, with both demand and supply increasing. Fonterra cautions that the potential for additional waves of COVID-19 is impacting the confidence of some customers.

Meanwhile global milk production is stronger than expected, with Fonterra saying volumes in the key dairy production regions of the EU and USA are anticipated to be up on last year.

We concur with Fonterra's recommend caution regarding on-farm financial decisions. Our forecast of \$6.75 for the season ahead is under some pressure from the recent price movements, and to a lesser extent the renewed strength of the NZD (if it continues). We will review our outlook after the next GDT auction and Fonterra announcement.



ASB Economics & Research

Chief Economist
 Senior Economist
 Senior Economist
 Senior Economist, Wealth
 Senior Economist
 Data & Publication Manager
www.asb.co.nz/economics

Nick Tuffley nick.tuffley@asb.co.nz
 Jane Turner jane.turner@asb.co.nz
 Mark Smith mark.smith4@asb.co.nz
 Chris Tennent-Brown chris.tennent-brown@asb.co.nz
 Mike Jones mike.jones@asb.co.nz
 Judith Pinto judith.pinto@asb.co.nz

Phone
 (649) 301 5659
 (649) 301 5853
 (649) 301 5657
 (649) 301 5915
 (649) 301 5661
 (649) 301 5660
 @ASBMarkets

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