

# Commodities Weekly

For the week ending Friday 27<sup>th</sup> November



## Bumper lift for dairy prices at latest GDT

Demand factors solid, but production and NZD strength give us pause

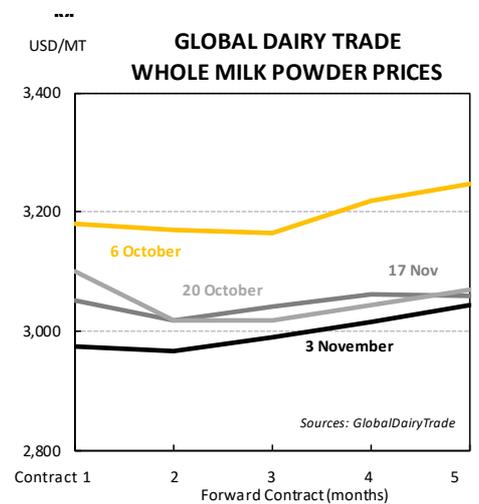
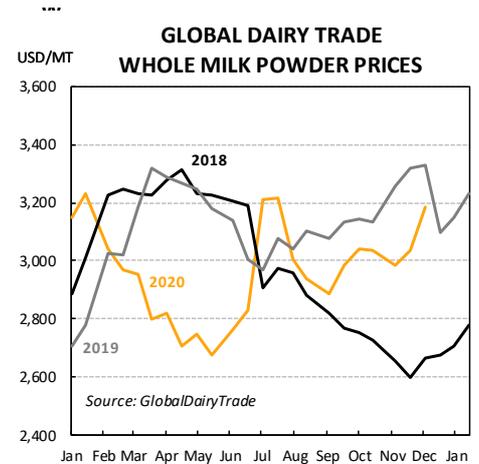
There was a solid lift in prices at the first Global Dairy Trade auction for December. The overall price indices lifted a solid 4.3% - more than the futures market had been pegging. There were broad-based price lifts among all the key commodities, but the rise in WMP prices was particularly marked, lifting 5%. SMP prices were also up 3.6%. The quantity sold was about 12% lower.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	5.0%	-3.2%	3,182
Skim Milk Powder (SMP)	3.6%	-6.2%	2,889
Anhydrous Milk Fat (AMF)	2.6%	-12.4%	4,278
Butter	3.8%	1.3%	3,986
GDT Price Index	4.3%	4.4%	n.a.

This is one of the more dramatic price moves we've seen at recent auctions. Prices were higher across the contract curve (and well north of the USD\$3000/MT mark) but, interestingly, it was the further-dated contracts that commanded the highest prices. China has remained the dominant player across recent auctions, and while some buyers there have built up a decent stockpile, demand is continuing to rise. Dairy import volumes in China were up across the board in the latest data, with food insecurity a big theme. Although New Zealand faces growing competition from other exporters, we expect solid Chinese demand to help support prices at future auctions. That means that the season could finish above the \$6.75 we are currently forecasting for the 20/21 farmgate milk price.

Still, there are a couple of factors that give us pause for thought when it comes to our milk price forecast. Production is one factor. Soil moisture data from NIWA suggests that growing conditions as the summer begins might be decent. Production is up 1.8% season-to-date on last time around according to DCANZ, and it might keep the farmgate price from rising too high. The other factor is the strength of the kiwi. The NZD/USD has lifted strongly recently, and our CBA friends have revised up their currency forecast. That's another negative for our overall price forecast, given the impact on any further hedging Fonterra has to do.

Still, the risks to our \$6.75 milk price forecast are now firmly skewed towards the upside. We're keeping an eye on our forecast and will be closely watching the coming auctions for news. Stay tuned.



## ASB Commodities Index

The ASB Commodities index fell 0.8% in NZD terms last week as the strength of the kiwi continued to weigh on it. The index was up a modest 0.4% in USD terms, with a 0.9% lift in meat prices counteracted by a slight fall in the dairy indices (before this week's auction).

The NZD/USD also continued its advance last week, lifting 1.6% and crossing the 0.70 threshold for the first time since 2018. Improvements in the fundamentals have driven the currency higher over the course of November. Last week we saw those trends strengthen, with sentiment remaining upbeat as vaccine news kept trickling in and the prospect of further OCR cuts next year also continued to diminish.

## ASB New Zealand Commodity Price Indices As at Friday 27<sup>th</sup> November 2020

	Index*	Week%	Year%**
Total NZD	100.6	-0.8%	-12.8%
Total SDR	98.0	0.9%	-7.6%
Total USD	100.3	0.4%	-4.5%
Dairy USD	97.5	-0.4%	-7.5%
Sheep/beef USD	99.6	0.9%	-12.0%
Forestry USD	98.0	1.3%	7.6%
Fruit USD	117.8	1.3%	7.3%
NZD/USD	0.7033	1.3%	9.5%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

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