

Commodities Weekly

For the week ending Friday 26th February



March madness

Whole milk prices go through the roof as supply squeeze fears hit

Dairy prices have kicked off the month with an astonishing lift at the latest GDT auction. Its difficult to overemphasise the strength of the result – with the overall GDT price indices lifting 15%. The result was fueled by whopping gains for WMP prices, up 21% to reach their highest level since 2014.

The price gains this auction were far, far more than market expectations. The futures market had been anticipating a (still-strong) lift of 4% lift prior to the auction. The result is a particularly dramatic representation of the recent trend we’ve seen– dairy prices are strengthening, and the magnitude of gains is exceeding expectations.

Aggressive purchasing fuelled by Chinese buyers looks likely to be driving the result. Stockpiles in China aren’t keeping pace with consumption. In this auction, shipping disruption fears look likely to have exacerbated recent trends as buyers sought to secure supply. The event lasted 23 rounds – the longest in our records – and some buyers were unable to obtain all the product they sought.

We expect prices to moderate at least little, over subsequent auctions, but ‘when’ and ‘how much’ are big questions. The stable forward contract curve is a good sign. Logistics disruption fears are here to stay, and they are motivating buyers to secure supply early even for shipments some way in the future to meet expected demand. High prices for the longer-dated contract curves are an encouraging sign that prices will remain elevated going into next season.

The farmgate milk prices for both 20/21 and 21/22 could finish up to 20c higher than we have currently forecast. Even if we were to conservatively assume much of this latest price spike unwinds over the next couple of months, there is now significant upside risk to our recently-made milk price forecasts for both seasons. We are nearing

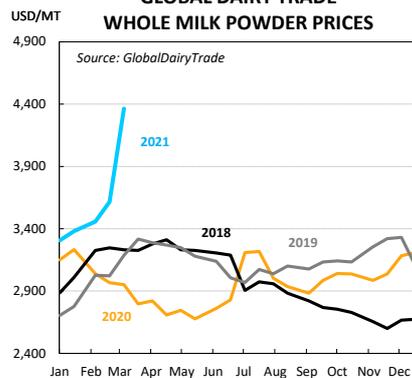
	2020/21		2021/22
	ASB	Fonterra	ASB
Milk Price*	\$7.40	\$6.90-7.50	\$7.30

* per kg of milk solids (excluding dividend).

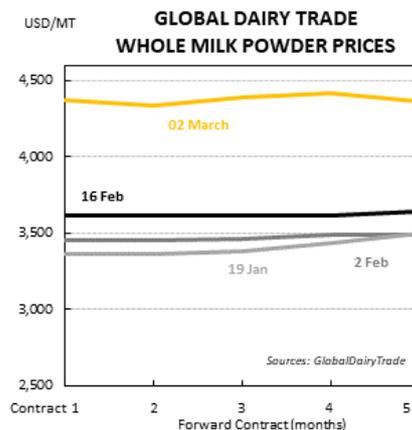
GlobalDairyTrade Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	21.0%	23.2%	4,364
Skim Milk Powder (SMP)	3.5%	12.6%	3,302
Anhydrous Milk Fat (AMF)	37.7%	42.8%	5,929
Butter	13.7%	42.8%	5,826
GDT Price Index	15.0%	28.5%	n.a.

GLOBAL DAIRY TRADE
WHOLE MILK POWDER PRICES



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the end of the 2020/21 season now, but the magnitude of gains at recent auctions have been large enough that a figure in the \$7.50 - \$7.60 range is conceivable. Similarly, our opening forecast of \$7.30 for the 2021/22 season could reach \$7.40 - \$7.50.

Before making any changes to our forecasts, we will assess what happens at the next auction. The challenge for determining the dairy price outlook is how much of this price spike is supply covering that will be offset later by reduced buying demand vs. a more fundamental (and more sustainable) lift in underlying demand. Spikes in other commodity prices – including animal feed – do point to elements of a more general surge in commodity demand. Watch out for our update in two weeks' time.

ASB Commodities Index

It was another strong week for the ASB Commodities index. The sizable gains at recent dairy auctions continued to flow through into our indices, with underlying dairy prices already up 2.6% in USD terms ahead of this morning's auction. Reflecting recent gains, oil prices were up 6.7% within our index, whilst aluminium was up 3.2%. The laggard in our indices continues to be meat prices, which were 0.6% lower in USD terms. All up, the USD indices lifted 1%.

There was a fair bit of chopiness in the NZD last week. The kiwi lifted against the USD in advance of Wednesday's RBNZ meeting and then rose sharply in the aftermath. Having lifted as high as 74 US cents, the NZD drifted lower over the rest of the week. All-up, the NZD/USD ended the week down 0.3%, helping our NZD index to a decent 1.4% gain.

ASB New Zealand Commodity Price Indices As at Friday 26th February 2021

	Index*	Week%	Year%**
Total NZD	106.9	1.4%	-1.4%
Total SDR	106.2	1.2%	9.9%
Total USD	110.3	1.0%	15.5%
Dairy USD	115.5	2.6%	9.2%
Sheep/beef USD	95.1	-0.6%	13.8%
Forestry USD	107.5	-0.3%	34.3%
Fruit USD	135.6	-0.3%	26.8%
NZD/USD	0.7279	-0.3%	17.2%

* For all indices 2017 average = 100

** Percentage change since same week last

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