

Commodities Weekly

For the week ending Friday 29th May



Dairy prices a mixed bag at the latest GDT event

Dairy prices were mixed in the latest Global Dairy Trade event on Tuesday 2nd June, with the GDT index up 0.1%.

The whole milk powder price index was up 2.1% with an average price of US\$2,761/MT. The skim milk powder index was down 0.5%, with an average price US\$2,530/MT. It was a mixed story for the other products too. At one end of the scale butter milk powder prices recovered from an earlier dip, and were up 9.4% at this event. At the other end, the butter index was down 4.4%, cheddar was down 5.3% and the AMF index was down 2.9%.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	2.1%	-10.3%	2,761
Skim Milk Powder	-0.5%	3.2%	2,530
Anhydrous Milk Fat	-2.9%	-31.8%	3,960
Butter	-4.4%	-25.8%	3,631
GDT Price Index	0.1%	-6.5%	n.a.

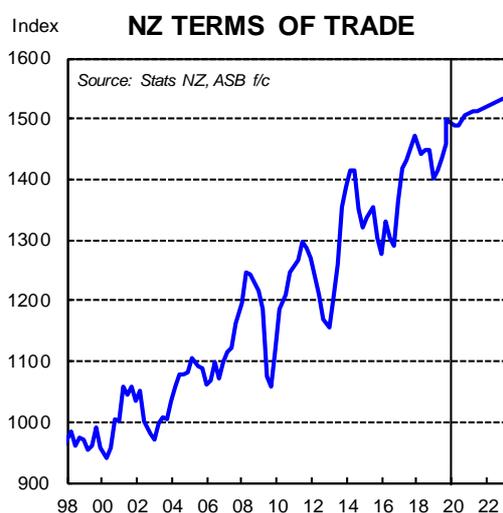
At this stage of the year there's not any implications for our milk price calculations.

	2019/20		2020/21	
	Fonterra	ASB	Fonterra	ASB
Milk Price*	\$7.10-\$7.30	\$7.20	\$5.40-\$6.90	\$6.50

* per kg of milk solids (excluding dividend).

For the season that just ended on May 31st we have adopted the \$7.20/kg midpoint of Fonterra's forecast range. For new 2020/21 season just started our forecast of \$6.50/kg is towards the top end of Fonterra's \$5.40-\$6.90 range. While any lift in whole milk powder prices, like observed today, is encouraging, over recent weeks the stronger NZD is an offsetting negative. We have been noting for a while the possibility that the milk price dips below \$6.00/kg and have regularly suggested farmers prepare for this contingency for the 20/21 season.

Meanwhile, this week Stats NZ released **Terms of Trade data for the first quarter**. Despite a small 0.7% dip, New Zealand's goods Terms of Trade were the 2nd highest on record, 5.3% higher than a year ago, and close to 40% above historical averages. Strong Terms of Trade are an encouraging sign for the economy. Export prices fell 0.2% over Q1, but are still up 8.0% on a year earlier. The export price data showed a quicker than expected impact of COVID-19, with a 7.5% quarterly fall in meat export prices. Lamb and beef prices were down 10% and 5.8%, respectively. Export prices for forestry products were down 3.4% in Q1, while seafood prices (-4.6% qoq) are showing signs of a COVID-19 hit. Dairy prices managed a 0.6% Q1 climb, consistent with previously-released monthly merchandise trade data. Meanwhile import prices rose 0.5% over Q1 (&



2.5% yoy), lifted by higher oil prices and the weaker NZD during Q1.

The worst of the fallout on global trade from COVID-19 now appears behind us, and we expect the NZ Terms of Trade to remain elevated over 2020. However, COVID-19 has significantly impaired global growth and has significantly dampened prospects for tourism-related firms. The impact on services exports is likely to be longer lasting than for goods exports, and will likely result in additional firm closures and job losses over the coming quarters.

Commodity index for the week ending 29th May 2020

The ASB Commodity Price Index was mixed again last week.

The Index posted a gain of 1.3% in USD terms, however a stronger NZD/USD meant the Index fell 0.5% in NZD terms.

Sheep/beef prices led the gains in USD terms for a second week, lifting 2% after posting a 4.4% gain the week prior.

The NZD also continues to strengthen and ended the week up 1.8% against the USD. The momentum has continued into this week, with the **NZD trading at a 2½ month highs against the USD, above 0.6350, at the time of writing.**

Most of the major currencies experienced a similar amount of lift against a softening USD over the past week or so.

The AUD was a notable outperformer last week, with a good bounce in commodity prices (iron ore prices are back above US\$100/tonne) adding support to the Aussie dollar. That's weighed on NZD/AUD, which is back around 0.9250.

ASB New Zealand Commodity Price Indices As at Friday 29th May 2020

	Index*	Week%	Year %**
Total NZD	103.9	-0.5%	-5.2%
Total SDR	91.8	0.0%	-10.3%
Total USD	91.2	1.3%	-10.2%
Dairy USD	90.6	0.5%	-13.9%
Sheep/beef USD	81.7	2.0%	-15.5%
Forestry USD	94.4	1.8%	-4.3%
Fruit USD	104.8	1.8%	3.7%
NZD/USD	0.6193	1.8%	-5.2%

* For all indices 2017 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Senior Economist
Data & Publication Manager

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

www.asb.co.nz/economics

@ASBMarkets

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.