

Commodities Weekly

For the week ending Friday 31st July

Dairy prices fall overnight.

The ASB Commodity Price Index dipped in all denominations last week. Underlying commodity prices were mixed, and a 0.3% lift in NZD against the USD caused the NZD-denominated index to decline 0.5% on a week earlier.

The ASB index posted a 0.2% dip in USD terms, with the USD sheep/beef index gaining 0.5% last week, but USD denominated dairy prices easing. Within the index beef prices were steady but lamb prices rose modestly in NZD terms last week (+0.3%). Dairy prices eased within the index last week, led by a 1.9% decline in whole milk powder prices (these movements are separate, and came prior to today's GDT changes discussed below).

It was disappointing to see prices fall at the Global Dairy Trade event overnight. Whole milk powder prices were down 7.5% and skim milk powder prices were down 4.6%. Anhydrous milk fat prices rose 3%, but remain significantly lower than year-ago levels.

Following the previous GDT event a fortnight ago, we lifted ASB's forecast for the 2020/21 season from \$6.50 to \$6.75. We had been factoring some retracement of the large jump in prices that we saw in July, and this is happening. Prices need to stabilise around the current levels to support our milk price forecast.

Prices for whole milk powder fell across all contracts, as shown in the chart to the right. We attributed some of the strength in near-term prices back in July to buyers adding some padding to stocks as a risk management strategy given the acceleration in global COVID-19 cases and increased potential for logistics disruption. That pressure seems to have reduced, with near-term contract prices around \$3,050 to \$3,100 per tonne.

Longer-term contract prices have dipped back below \$3,000 per tonne, so buyers are clearly less concerned about supply further into the season. One factor here could be reports of excellent conditions in the Waikato over recent months, with above-average grass growth at present and calving well underway.

ASB New Zealand Commodity Price Indices As at Friday 31st July 2020

	Index*	Week %	Year %**
Total NZD	101.8	-0.5%	-4.2%
Total SDR	94.6	-1.1%	-5.1%
Total USD	96.1	-0.2%	-2.5%
Dairy USD	97.7	-0.9%	-1.8%
Sheep/beef USD	94.7	0.5%	-9.4%
Forestry USD	87.7	0.3%	0.9%
Fruit USD	104.0	0.3%	7.3%
NZD/USD	0.6660	0.3%	1.8%

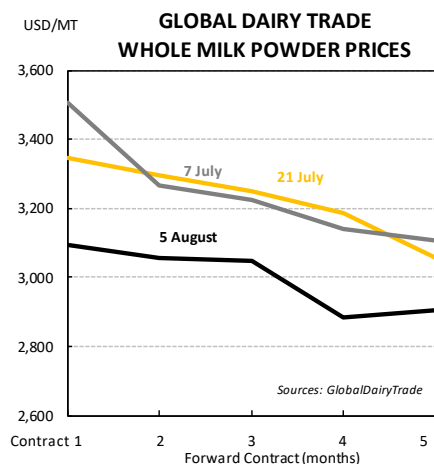
* For all indices 2017 average = 100

** Percentage change since same week last year

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

GlobalDairyTrade Auction Results - 4 August 2020

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-7.5%	-0.3%	3,003
Skim Milk Powder (SMP)	-4.6%	2.8%	2,583
Anhydrous Milk Fat (AMF)	3.0%	-24.9%	3,994
Butter	-2.8%	-18.9%	3,438
GDT Price Index	-5.1%	5.7%	n.a.



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