

Commodities Weekly

For the week ending Friday 30th October



Stirred, not shaken

Dairy auction prices ease, but we retain our \$6.75 milk price forecast

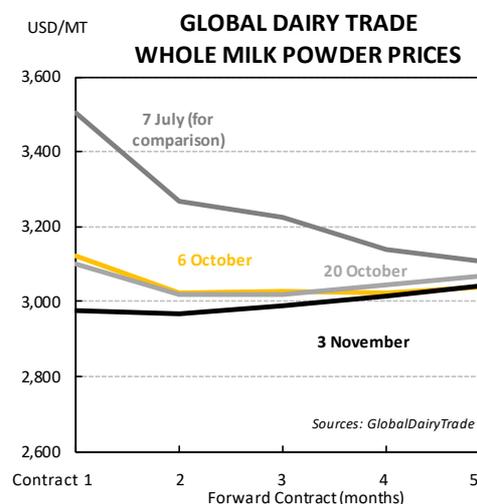
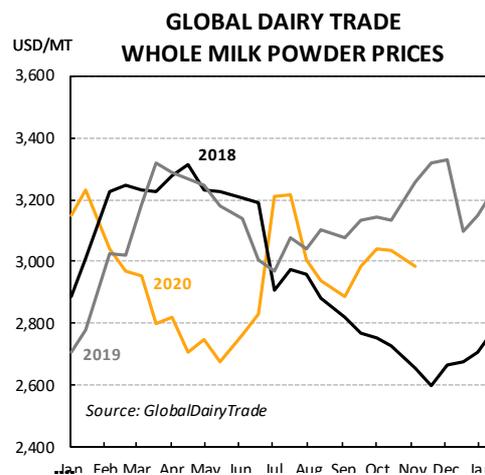
Prices retreated at the Global Dairy Trade Auction overnight. After three consecutive increases, the overall price index declined about 2%, as did the all-important WMP index. The fall for SMP was a bit more dramatic, falling 4.4% since the last auction. The decline in the overall index will have surprised markets a little, with futures having pegged an increase in the index.

| Product | % change in index since last auction | Annual % change in index | Weighted Average Price US\$/MT |
|--------------------|--------------------------------------|--------------------------|--------------------------------|
| Whole Milk Powder | -2.0% | -7.4% | 2,985 |
| Skim Milk Powder | -4.4% | -7.1% | 2,722 |
| Anhydrous Milk Fat | -2.6% | -23.4% | 4,002 |
| Butter | 3.9% | -8.8% | 3,822 |
| GDT Price Index | -2.0% | -1.2% | n.a. |

GDT volumes remain stubbornly down on year-ago levels. The total volume sold at the auction fell about 8% vs the same time last year. Volumes sold have been down on year-ago levels at every auction since the beginning of July, after rising sharply earlier in the year as buyers rushed to secure supply amid fears of wide-scale COVID-related supply chain disruption and a slowdown in international trade.

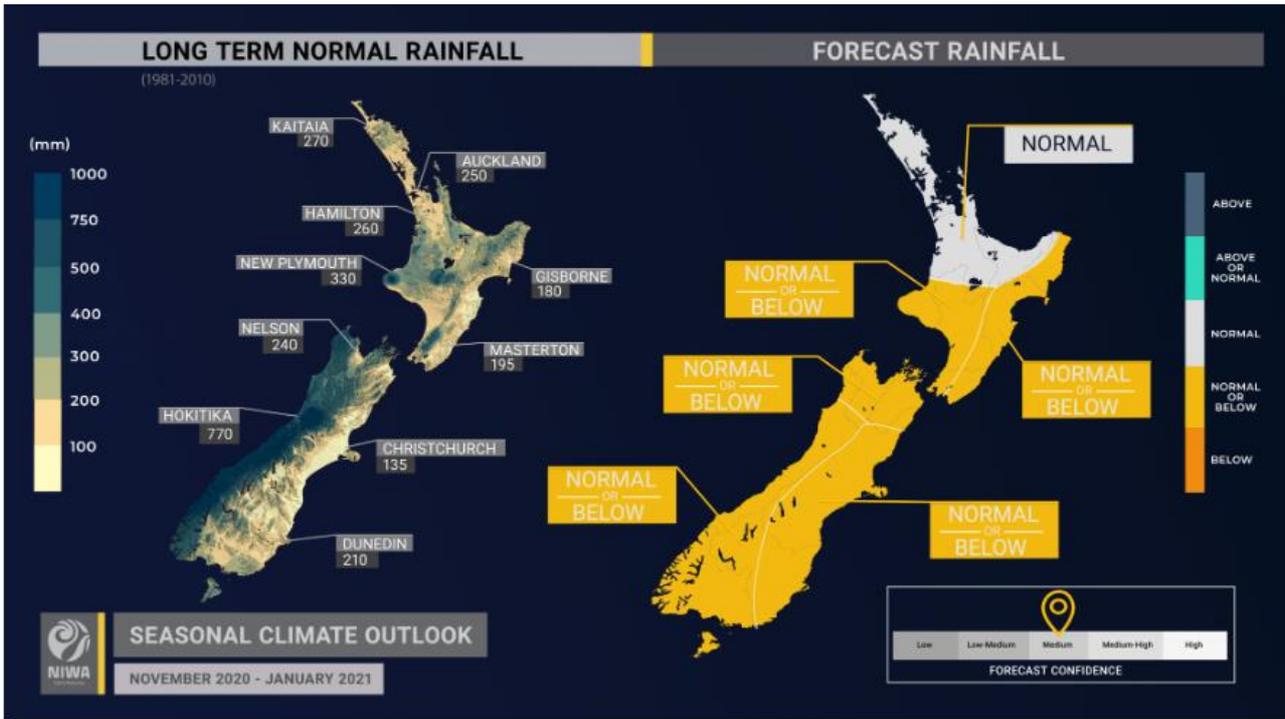
The shape of the contract curve is shifting too. Over recent auctions there has been a bit of a 'kink' in the curve, with demand for nearer-dated contracts much higher. At the latest auction, the curve shifted in the opposition direction, with demand lower at the nearer term and then rising out to longer dates. That might suggest buyers have built up good stockpiles for the time being after the lifts over recent auctions.

We are retaining our \$6.75 forecast for the 2020/21 season. While some will have been disappointing to see the winning streak end at the auction, prices are moving less dramatically than they were earlier in the year, when there were some real rollercoaster moves up and down. The shift overnight isn't dramatic enough to really change that view, but we'll keep watching the GDT results and monitoring milk production over the months ahead (more on that below).



Hotting up

Grass growing conditions over the summer months will be another key variable to this season’s milk price. Last week, [NIWA](#) released its seasonal outlook for the beginning of summer, confirming that New Zealand is highly likely to experience La Niña weather conditions. La Niña conditions are typically associated with above average temperatures across the country and near-normal rainfall conditions in the upper North Island but can also mean lower-than average rainfall in the rest of the country. That should mean grass growing conditions are good in the Waikato but much weaker elsewhere. Milk production is currently running about 3% of last year, and we continue to expect it to finish the season higher, but there is the real risk it could taper off if things really dry-off.



Source: NIWA

ASB Commodities Index

There was a decent lift in the ASB Commodities Index last week, boosted both by the falling dollar and by underlying price movement. The NZD index rose a solid 1.2% over the week. The USD index enjoyed a more modest 0.4% lift thanks to a strong lift in the dairy index (+2.2%), in-line with solid results at recent dairy auctions. Currency volatility continues to impact on the index, with the dollar NZD/USD falling 0.8% over the week after advancing a fortnight ago.

Both our USD and NZD indices are now touching recent highs – but we continue to emphasise that the impact on key commodities remains highly uneven. The NZD index is sitting at a five-month high, while the USD index is at an eight-month high. Still, the headline lift belies the parlous state of some components. Notably, whilst sheep and beef prices have lifted off their lows, they can’t quite consolidate those gains and have begun to pare back again over recent weeks.

ASB New Zealand Commodity Price Indices As at Friday 30th October 2020

| | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 102.8 | 1.2% | -7.5% |
| Total SDR | 94.8 | 1.0% | -7.0% |
| Total USD | 96.4 | 0.4% | -4.9% |
| Dairy USD | 98.4 | 2.2% | -1.5% |
| Sheep/beef USD | 94.4 | -1.4% | -14.1% |
| Forestry USD | 90.9 | -0.8% | 2.7% |
| Fruit USD | 99.1 | -0.8% | -9.9% |
| NZD/USD | 0.6610 | -0.8% | 2.8% |

* For all indices 2017 average = 100

** Percentage change since same week last year

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