

Commodities Weekly

For the week ending Friday 1st April



Shang-hai noon

Dairy prices edged lower overnight, wrongfooting expectations of a modest lift. Fat prices continue to head south from their high base, but the highlight was a 1.5% fall in WMP to a weighted average of US\$4,532/MT.

The latest lockdown in China looks like the culprit.

Per our friends at the NZX, there's been an awful lot of disruption to domestic Chinese supply chains following Shanghai's new restrictions, with the upshot being local dairy production has been redirected away from fresh milk and into less-perishable powders. The upshot is that the all-important Chinese WMP market is now quite well supplied.

Still the current dynamic in China isn't likely to be permanent, which is a positive for NZ producers. We're not in the business of trying to predict the path of COVID in China or the stringency of its public health response, but it seems buyers (who, after all, have their ear closed to the ground) aren't expecting the current WMP glut to last. The contract curve is looking unexciting over the near term (albeit at a still healthy US\$4,400/MT), but there's a sharp kink at contract number 5, which suggests prices still have quite a bit of momentum and there's an eagerness to secure supply once the near term WMP glut subsides.

Looking further ahead, **Chinese economic growth is set to slow over the course of the year, but dairy's status a stable food means demand isn't all that elastic.** What's more, dairy demand is a global story – buying activity from South East Asia and the Middle East is also acting as a support.

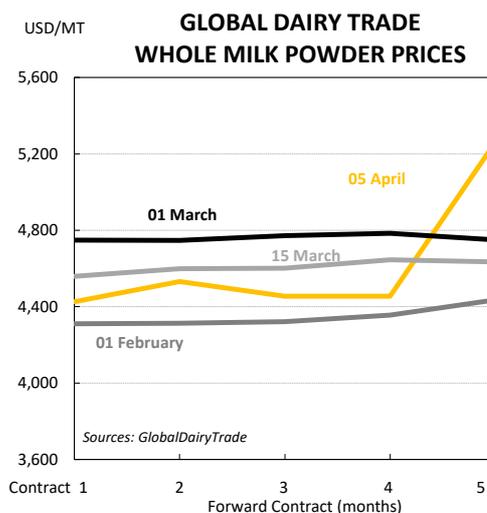
Meanwhile, global dairy production is still looking very weak indeed. The latest production data in the US and Aussie is poor (down 6.1% and 0.3% yoy respectively) and things aren't flash in NZ either with drought conditions stretching into the spring now.

To sum up all of those threads: don't expect recent reticence for NZ product from Chinese buyers to last and while demand is set to ease a bit over the year, that tight supply picture should keep prices well supported. The upshot is that we've retained our lofty milk prices forecasts for this season and next.

	2021/22		2022/23	
	ASB	Fonterra	ASB	Fonterra
Milk Price*	\$9.50	\$9.30-\$9.90	\$9.20	Watch this space

* per kg of milk solids (excluding dividend).

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-1.5%	12.4%	4,532
Skim Milk Powder (SMP)	1.0%	37.9%	4,599
Anhydrous Milk Fat (AMF)	-2.5%	11.9%	6,908
Butter	-0.6%	19.5%	6,891
GDT Price Index	-0.9%	23.3%	n.a.



ASB Commodities Index

The ASB Commodities Index increased in NZD terms but decreased in both SDR and USD terms. This week we saw very little change throughout the index once again. Fruit prices are down 0.6% from the high base they have been sitting on due to record high apple prices. Dairy prices remained unchanged while sheep/beef fell 1.1% which was the largest change of the week. Forestry decreased by 0.6%, now 5.1% lower than the same week last year.

With NZD/USD losing a modest 0.6% over the week, the overall NZD Commodities Index was up a very slight 0.1%. The index remains close to record highs we hit in the first weeks of March.

ASB New Zealand Commodity Price Indices As at Friday 1st April 2022

	Index*	Week %	Year %**
Total NZD	133.7	0.1%	19.1%
Total SDR	131.9	-0.3%	21.1%
Total USD	130.8	-0.5%	17.3%
Dairy USD	154.3	0.0%	22.3%
Sheep/beef USD	110.1	-1.1%	18.8%
Forestry USD	99.8	-0.6%	-5.1%
Fruit USD	128.0	-0.6%	27.9%
NZD/USD	0.6907	-0.6%	-1.6%

* For all indices 2017 average = 100

** Percentage change since same week last year

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