

Commodities Weekly

For the week ending Friday 23rd July

Mixed signals

There were some mixed signals at the latest GlobalDairyTrade auction overnight. Most product categories found support, with some pleasing lifts for butter, in particular. However, whole milk powder – obviously the key driver of the season’s farmgate milk price – fell for a fifth consecutive auction.

The move lower in WMP is particularly notable given the ongoing reduction in volumes offered for sale on the platform. Over the past two auctions, Fonterra has lowered WMP offer volumes by about 40,000t, reportedly in response to strong demand off-auction. The futures market had expected that tighter supply over the past fortnight would arrest the decline in prices, but that hasn’t materialised. One theory (floated by the NZX) is that the reduction in offer volumes has corresponded with the removal of an aggressive bidder, presumably now securing their supply outside of the auction platform.

There are consistently clear signs dairy auction prices are correcting faster than many anticipated. This is the fifth consecutive auction where prices have moved lower and the second where they have wrongfooted futures by doing so. What’s more, it’s the distant contracts that are experiencing the largest declines, showing prices continuing to lose momentum as the season wears on.

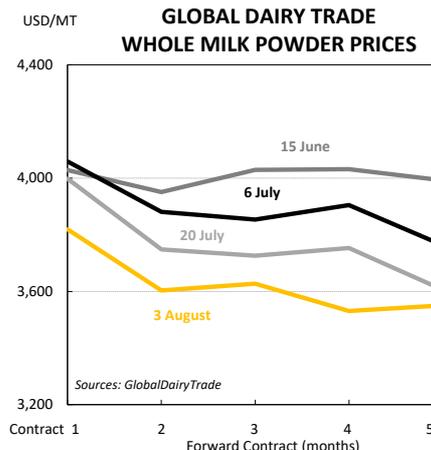
We retain our \$7.90 forecast for the 21/22 season, but acknowledge uncertainty remains high. There should be some downside risk to that figure going purely off the auction results, but we simply don’t know exactly what kind of prices Fonterra is seeing outside of the auction platform. The co-op is sticking to a wide forecast range for this stage in the season, so it’s hard to get a signal there. The massive reduction in offer volumes does suggest there’s a ring of truth to the co-op’s comments about strong demand outside the platform, rather than just spin. **Whatever the case, we emphasise that even a result towards the bottom end of Fonterra’s range would represent a strong season for farmers.**

| | 2020/21 | | 2021/22 | |
|-------------|---------|---------------|---------|---------------|
| | ASB | Fonterra | ASB | Fonterra |
| Milk Price* | \$7.60 | \$7.45-\$7.65 | \$7.90 | \$7.25-\$8.75 |

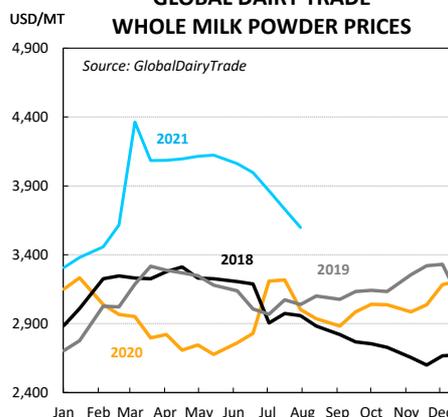
* per kg of milk solids (excluding dividend).

| Product | % change in index since last auction | Annual % change in index | Weighted Average Price US\$/MT |
|--------------------------|--------------------------------------|--------------------------|--------------------------------|
| Whole Milk Powder (WMP) | -3.8% | 20.2% | 3,598 |
| Skim Milk Powder (SMP) | 1.5% | 17.8% | 3,020 |
| Anhydrous Milk Fat (AMF) | 1.3% | 44.1% | 5,668 |
| Butter | 3.9% | 33.4% | 4,589 |
| GDT Price Index | -1.0% | 34.6% | n.a. |

GLOBAL DAIRY TRADE
WHOLE MILK POWDER PRICES



GLOBAL DAIRY TRADE
WHOLE MILK POWDER PRICES



ASB Commodities Index

The ASB Commodities Index continues to oscillate around record highs in NZD terms. Meat prices were the big movers last week, up 2% in USD terms as their rapid recovery continues. In particular, we expect NZD lamb prices to surpass record highs over the next couple of weeks. Dairy prices edged down 0.4% ahead of this morning's auction. All-up, USD commodity prices lifted by 0.5%.

With currency moves relatively modest over the week, NZD prices were also up by a similar 0.4%.

ASB New Zealand Commodity Price Indices As at Friday 30th July 2021

| | Index* | Week % | Year %** |
|----------------|--------|--------|----------|
| Total NZD | 117.2 | 0.4% | 16.0% |
| Total SDR | 112.6 | 0.0% | 20.1% |
| Total USD | 115.9 | 0.5% | 21.6% |
| Dairy USD | 118.6 | -0.4% | 21.4% |
| Sheep/beef USD | 119.7 | 2.0% | 26.4% |
| Forestry USD | 109.5 | 0.1% | 24.9% |
| Fruit USD | 100.7 | 0.1% | 8.0% |
| NZD/USD | 0.6981 | 0.1% | 4.8% |

* For all indices 2017 average = 100

** Percentage change since same week last

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Senior Economist
Economist
Data & Publication Manager
www.asb.co.nz/economics

Nick Tuffley
Jane Turner
Mark Smith
Chris Tennent-Brown
Mike Jones
Nat Keall
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
mike.jones@asb.co.nz
nathaniel.keall@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5720
(649) 301 5660

@ASBMarkets

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