

# Commodities Weekly

For the week ending Friday 2<sup>nd</sup> October



## Encouraging lift in GDT prices overnight

The ASB Commodity Price Index fell 0.7% in NZD terms last week. The USD index managed a 0.8% lift, but once again currency movement drowned out the shift, with the NZD/USD lifting 1.4%. The sheep/beef sub-index was the biggest mover (+1.6%), whilst the dairy sub-index was broadly unchanged as some dairy products lifted and others receded. Note that the index was calculated before the latest Global Dairy Trade auction overnight, which we discuss in more detail below.

As we highlighted last week, the kiwi dollar has been the main factor driving changes in the index recently, and that remained the case this week. After falling the week before as risk sentiment deteriorated, there was a bounce back this week. With the US election a matter of weeks away (and plunged into disarray after the news President Trump has contracted the virus), we can probably expect our index to bounce around a bit over the following month off the back of some likely volatility.

### WMP lifts back above US\$3,000/tonne

At the GDT auction overnight, prices lifted 2.2%.

Producers will be pleased to see the improvement in prices over the past two events, and so are we. Among the products sold, WMP prices lifted 1.7% and SMP prices nudged down 0.9%. The shift in butter and butter milk prices was particularly dramatic, rising 8.4% and 9.1% respectively.

Volumes are picking up – as they normally do at this time of year – but are still not as high as year-ago levels. QoQ volumes are down about 8%, and at each of the past few auctions have been down 9-10% on last year. Notably, there was less butter on offer as Fonterra reduced the amounts sold via GDT in response to higher sales via non-GDT channels, helping explain the upward pressure on prices as supply tightened. Still, there is a lot of variation across product type and region, with China moving to fill its 0% rate tariff quota, the ‘North Asia’ region has been particularly strong for volumes over the last two auctions.

### ASB New Zealand Commodity Price Indices As at Friday 2<sup>nd</sup> October 2020

	Index*	Week %	Year %**
Total NZD	101.4	-0.7%	-8.4%
Total SDR	93.8	0.3%	-6.8%
Total USD	95.3	0.8%	-3.9%
Dairy USD	95.0	0.0%	-3.4%
Sheep/beef USD	96.9	1.6%	-8.7%
Forestry USD	89.7	1.4%	5.0%
Fruit USD	98.9	1.4%	-10.5%
NZD/USD	0.6632	1.4%	5.0%

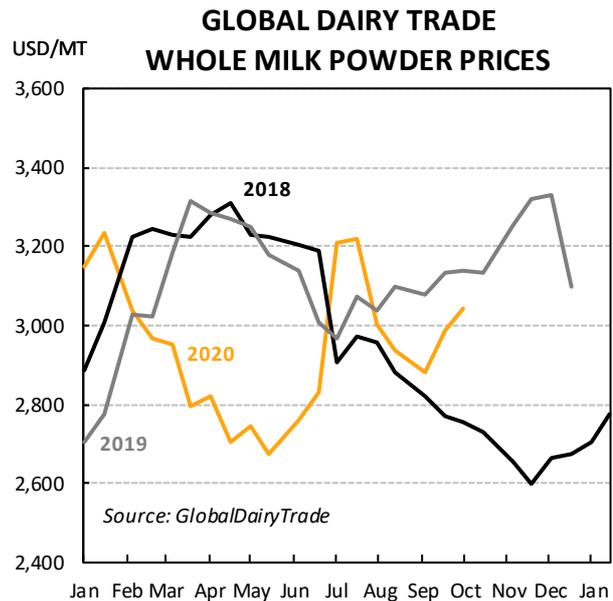
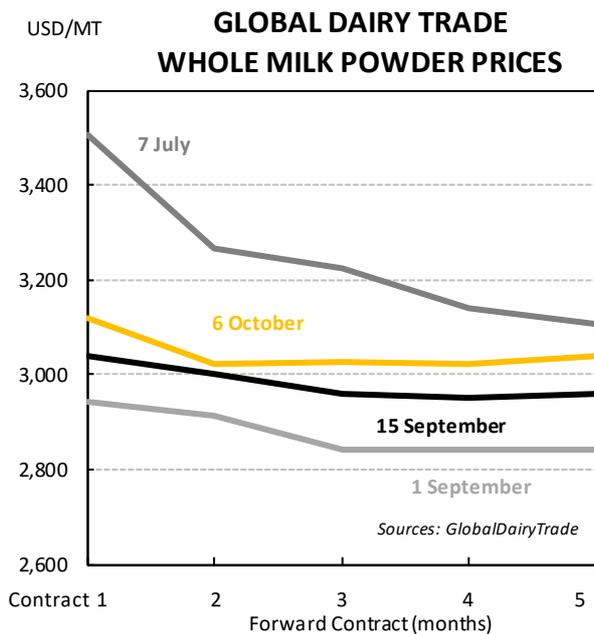
\* For all indices 2017 average = 100

\*\* Percentage change since same week last year

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	1.7%	0.0%	3,041
Skim Milk Powder	-0.9%	0.0%	2,865
Anhydrous Milk Fat	5.4%	-18.3%	4,131
Butter	8.4%	-15.2%	3,561
GDT Price Index	2.2%	0.0%	n.a.

At present, our milk price forecast for the season sits at \$6.75, so we were encouraged by the result. We had shifted our forecast up from \$6.50 back in July after a couple of bumper auctions but falls in subsequent auctions in August put a bit of pressure on that number. Given that fact, it's encouraging to see WMP lift a second consecutive auction and is now up above S\$3,000/tonne. Notably the curve across the forward contracts has flattened too - there is still a bit of a kink in the near term as buyers secure supply, but the other four contracts have stabilised with prices above the US\$3,000/tonne mark. That's what we need to see to have confidence in our \$6.75 milk price forecast.

We've highlighted healthy production data and continued economic uncertainty overseas as downside risks to that forecast over recent weeks, but all-up, the result here suggests those risks are receding.



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