

Commodities Weekly

For the week ending Friday 3rd July



Whole Milk Powder prices jump

Prices rose strongly at the latest Global Dairy Trade Event, with whole milk powder prices (WMP) leading the gains. The GDT Price Index rose 8.3%, driven largely by a 14% lift in WMP prices. The average WMP price of US\$3,208/MT for WMP is a really encouraging sign.

Other price changes were smaller, between a 0.2% dip for anhydrous Milk Fat (AMF), to a 3.5% lift in skim milk powder. The WMP price gain is important, as it's the key product that drives the milk price farmers receive.

Fonterra announced an appropriately wide 2020/21 opening milk price forecast range of \$5.40-\$6.90/kg back in May. We have been forecasting \$6.50/kg, and at one stage were concerned about downside risks.

Recent price movements and today's outsized gains flip the risks around. **The price gains, if sustained, will boost the milk price for the 20/21 season. Our 20/21 forecast is under review and will be updated after the next event in a fortnight. We'll be looking for how much of the latest lift is sustained.**

Mixed signs elsewhere

The ASB Commodity Price Index dipped 0.2% in NZD terms over the week ending 3 July, with the NZD up 1.9% against the USD. The ASB index posted a 1.7% lift in USD terms, with the dairy and meat components of the index gaining in USD terms. (Note the latest GDT results will impact next week's dairy index). Nonetheless, both the dairy and meat indices remain down on year-ago levels, and the NZD buoyancy of late is not helping with an offset.

Speaking of the Kiwi, NZD is back above 0.6500 vis-à-vis the USD, with the NZD garnering support and at the same time the USD softening on the idea that we are past the worst in terms of global growth threats.

GlobalDairyTrade Auction Results - 7 July 2020

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	14.0%	9.1%	3,208
Skim Milk Powder (SMP)	3.5%	10.7%	2,694
Anhydrous Milk Fat (AMF)	-0.1%	-27.6%	3,981
Butter	3.0%	-15.6%	3,717
GDT Price Index	8.3%	13.7%	n.a.

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.10-\$7.30	\$7.20	\$6.50	\$6.50-\$7.50

* per kg of milk solids (excluding dividend).

ASB New Zealand Commodity Price Indices As at Friday 3rd July 2020

	Index*	Week %	Year %**
Total NZD	101.9	-0.2%	-4.0%
Total SDR	95.0	1.6%	-5.2%
Total USD	94.4	1.7%	-5.4%
Dairy USD	93.8	1.0%	-4.3%
Sheep/beef USD	91.1	2.9%	-10.9%
Forestry USD	91.6	1.9%	-7.2%
Fruit USD	107.2	1.9%	8.3%
NZD/USD	0.6530	1.9%	-1.5%

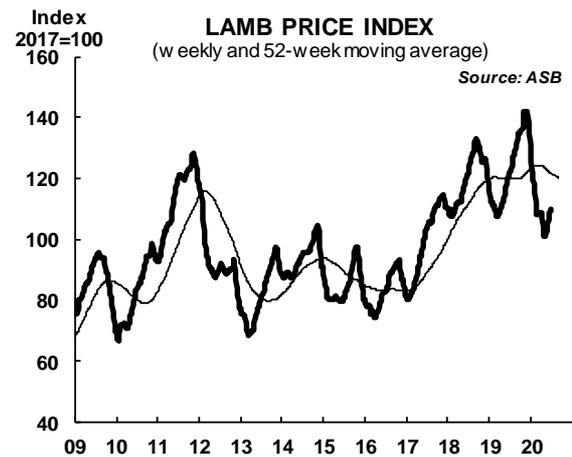
* For all indices 2017 average = 100

** Percentage change since same week last year

That view is endorsed by economic data such as the better-than-expected US labour market report last week and the month prior, and the lift in Chinese Manufacturing PMI indices, and rebounding Australasian retail sales. But the same view is challenged by increasing numbers of new COVID-19 cases in the US and elsewhere. Close to home, Australian retail spending figures have been encouraging, but a spike in COVID-19 cases in Victoria is a concern. Restricted lockdowns have been put in place in Melbourne. People are hoarding toilet paper again, and buying limits are back in place at Woolworths and Coles.

In contrast, the focus in global sharemarkets has been on economies reopening. Many global sharemarket indices are well on the way to fully recovering from the March plunge. The NZ sharemarket is within 5% of its record high set back in February.

For commodities, the story is more complicated. As we discussed in this report last week, COVID-19 developments have implications for people’s eating habits. These implications include our household budgets, how often we eat out, and the types of food we buy. In turn, these developments impact the prices that consumers pay for our agricultural exports. Lamb prices are a good example: prices lifted modestly within the index last week, but are still down significantly on year-ago levels in the UK, Europe (that’s two different places now) and the US. The clear risk is that weaker demand in those economies still grappling with containing COVID-19 remains a significant dampener for future NZ export prices.



With that cautious view in mind, the latest dairy results were a really pleasing development.

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