

Commodities Weekly

For the week ending Friday 4th December



\$7th heaven

Fonterra lifts its Milk Price forecast range for the 20/21 season

Fonterra has [adjusted](#) its farmgate milk price forecast range for the 20/21 season, lifting the midpoint of its forecast range to **\$7.00 per kgMS**. In a sign that it sees downside risks receding, the co-op shaved 20c off the bottom of its forecast range, taking us to a \$6.70 - \$7.30 band.

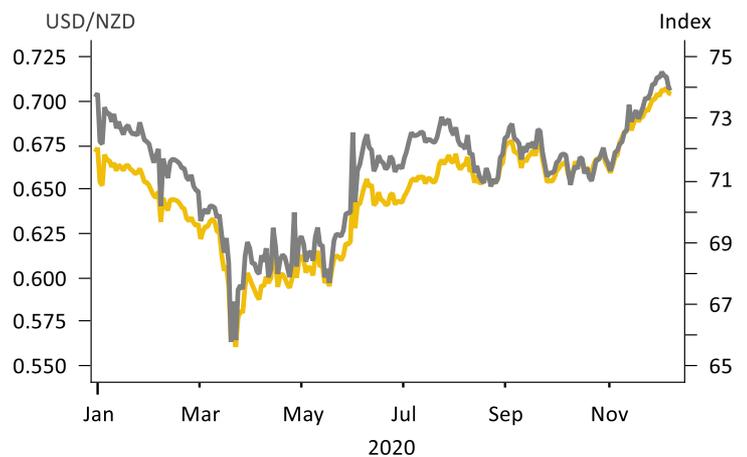
	2020/21	
	Fonterra	ASB
Milk Price*	\$6.70 - \$7.30	\$6.75

* per kg of milk solids (excluding dividend).

The move wasn't too shocking, and [last week](#) we highlighted that there was a lot of upside risk to our own **\$6.75** forecast. We've had a run of solid results at recent Global Dairy Trade auctions, with Chinese demand for whole milk powder holding strong. Last week's result was a particular whopper. Fonterra notes its already contracted a large chunk of this season's production compared with the same point in previous seasons, which is also a good sign.

The NZD has lifted sharply over the past month, but we don't envisage it will have much of an impact at this point in the season. Improving global sentiment, the diminished prospects for a negative OCR and NZ's elevated terms of trade (thanks to the strength in commodity prices) have all proved a boon for the kiwi over recent weeks (see chart). Still, the co-op will be well hedged at this point for the 20/21 season, so any impact on the current season from here is likely to be marginal.

NZ Dollar



— Trade Weighted Index (17 Currency Basket), rhs — NZD/USD, lhs

Source: Macrobond, ASB

All up, we're impressed by how resilient dairy prices have proven through the pandemic. Indeed, earlier in the year we thought there was a risk this season's milk price could fall below \$6. With demand holding up well, that's an outcome that's now well outside of Fonterra's forecast range. **The final Global Dairy Trade auction of 2020 is next week, where we'll take a close look at our forecast before the summer break.**

ASB Commodities Index

The ASB Commodities Index rose 0.5% in NZD terms last week, and 0.7% in USD terms. The indices were supported by a solid lift in dairy prices at the latest GDT auction, which were up 2% in USD terms. The kiwi continued its advance, lifting 0.2% over the week, but it wasn't enough to reverse the underlying price gains.

Price gains aren't being shared evenly among the key commodities. Sheep and beef prices fell yet again last week (-1.3% in USD terms) and are now down 14.5% on year-ago levels.

As we noted above, the weakness in the USD has been the key theme in currency markets over recent weeks. Indeed

we even saw the NZD/USD lift above 0.7100 for a spell last week. As at the time of writing, it was sitting at around 0.7046.

ASB New Zealand Commodity Price Indices As at Friday 4th December 2020

	Index*	Week %	Year %**
Total NZD	101.1	0.5%	-10.9%
Total SDR	97.3	-0.7%	-8.5%
Total USD	101.0	0.7%	-4.4%
Dairy USD	99.4	2.0%	-5.0%
Sheep/beef USD	98.3	-1.3%	-14.5%
Forestry USD	98.1	0.2%	5.5%
Fruit USD	118.0	0.2%	6.6%
NZD/USD	0.7044	0.2%	7.3%

* For all indices 2017 average = 100

** Percentage change since same week last year

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