

Commodities Weekly

For the week ending Friday 3th August

Fonterra: cut 1 of a 2 cut story

Fonterra cuts 17/18 milk price forecast by 5 cents; larger 18/19 cut on the cards

Fonterra advised today that it has cut its 17/18 milk price forecast by 5 cents to \$6.70/kg. This departs from usual practice as the new forecast differs from that calculated under their Milk Price Manual.

Fonterra also advised that it intends to pay no further cash dividends this year. Back in May it had announced that an additional 5-10 cents/kg would be paid. However, with its earnings for the year likely to disappoint, Fonterra has preferred “keeping [its] balance sheet strong” and thus cap the dividend.

In sum, farmers’ 17/18 forecast incomes are 10-15 cents/kg lower than previously expected. Collectively, this equates to between a \$150m and \$225m hit to 17/18 farm incomes. With non-Fonterra farmers also likely to receive the 5-cent milk price cut (the dividend change does not apply), the industry-wide impact is \$245m-\$320m.

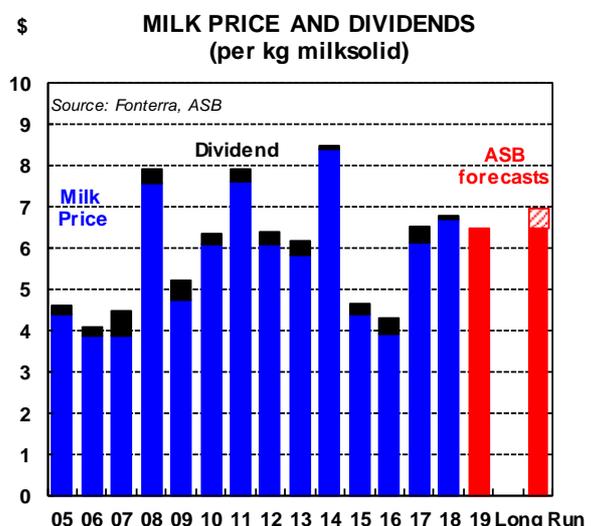
Unfortunately for farmers, a second forecast cut is likely to follow later this month. As we discussed on Wednesday ([here](#)), we anticipate that Fonterra will cut its \$7.00/kg 18/19 forecast to near our forecast of \$6.50/kg. Still, milk price forecasts at \$6.70/kg and \$6.50/kg, respectively, make for relatively healthy reading. Nonetheless, these moves emphasise that dairy markets can and do change quickly.

Week ending 3 August

The ASB Commodity Price Index rose 0.2% in NZD terms in the week ending 3rd August. However, a weaker NZD, down 0.7% against the USD accounted for the entire rise.

This week the NZD has slid further after the Reserve Bank surprised markets by announcing that it plans to keep the Official Cash Rate unchanged until 2020. As at the time of writing, NZD was trading at US\$0.6600, down from US\$0.6740 at the start of the week.

By major Index component, dairy, forestry and fruit prices all dipped in USD terms over the week. Although in the case of dairy prices, these stabilised at this week’s dairy auction.



ASB New Zealand Commodity Price Indices As at Friday 3th August 2018

	Index*	Week %	Year %**
Total NZD	113.4	0.2%	7.6%
Total SDR	99.9	-0.2%	-2.7%
Total USD	91.8	-0.5%	-3.4%
Dairy USD	85.5	-0.3%	-8.4%
Sheep/beef USD	97.0	0.2%	-1.1%
Forestry USD	99.6	-0.7%	-6.2%
Fruit USD	97.1	-0.7%	6.1%
NZD/USD	0.6743	-0.7%	-10.2%

* For all indices 2014 average = 100

** Percentage change since same week last year

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.