

# Commodities Weekly

For the week ending Friday 7<sup>th</sup> June

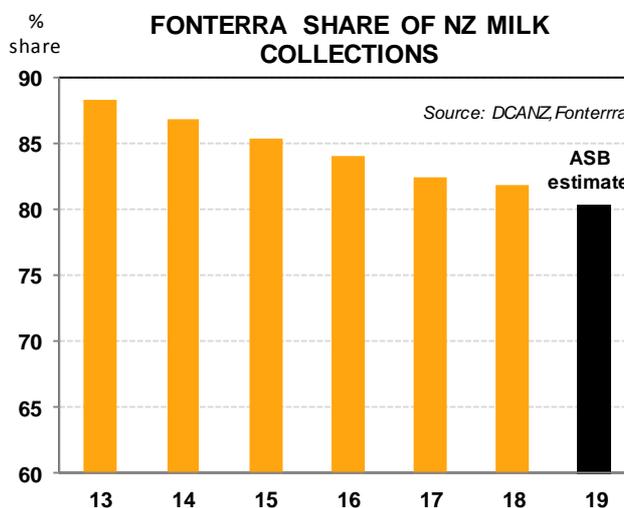


## NZ dairy: a few less rules; more transparency

### Milk collection rule relief for Fonterra, but more milk price transparency required

Last week, the NZ Government announced changes to the Dairy Industry Restructuring Act (DIRA) – the Act that regulates Fonterra’s domestic dominance of the NZ dairy market. The changes have brought some regulatory relief for Fonterra, mixed with increased oversight.

On the relief front, the new regulations allow Fonterra to refuse milk supply from a farm that is unlikely to comply with Fonterra’s terms of supply or is from a newly-converted dairy farm. In addition, Fonterra will no longer be required to sell up to 50 million litres of raw milk per season to an independent processor once that independent processor has obtained 30 million litres of its own supply of raw milk in a season.



Meanwhile, other changes are designed to increase transparency, particularly around how Fonterra calculates the milk price. Indeed, Fonterra will be required to appoint one member of its Milk Price Panel on the nomination of the Minister of Agriculture.

From our viewpoint, the regulatory changes are roughly in line with what we expected. Dairy competition has increased gradually since 2001, so some loosening of the regulations was warranted.

Naturally and despite the concessions around milk collection, Fonterra still argues that the changes have not gone far enough. Following the announcement, Fonterra stated “we’re disappointed the Government did not recommend removing the requirement for us to supply our farmers’ milk to large, export-focused businesses altogether.

For our part, we are not surprised at the modest nature of the changes proposed for the Act. As the chart above shows, Fonterra retains a dominant domestic dairy market position of 80% of domestic milk collections. With this in mind, regulators will always be looking to protect consumers’ and potential farmer suppliers’ interests from Fonterra’s monopoly power. In that sense, tight regulations are a fact of life for a monopoly market position.

Besides, we think Fonterra has bigger fish to fry. Indeed, its poor financial performance of recent years has largely been down to its offshore investments underperforming.

## Week ending 7 June

The ASB Commodity Price Index slid 2.1% in NZD terms last week, largely on the back of a less favourable NZD/USD. In USD terms, the Index fell 0.2%.

By component the Index was mixed in USD terms. Dairy prices dipped 2.7%, similar to the fall at last week's dairy auction. Meanwhile, sheep/beef, forestry and fruit prices gained 2% or more over the week.

The NZD/USD rose against the USD as the US Federal Reserve has become more open to the idea of cutting interest rates. At the time of writing, the NZD/USD was trading at around 0.6557.

## ASB New Zealand Commodity Price Indices As at Friday 7<sup>th</sup> June 2019

	Index*	Week %	Year %**
Total NZD	106.8	-2.1%	0.7%
Total SDR	101.0	-0.8%	-2.0%
Total USD	100.9	-0.2%	-3.9%
Dairy USD	102.4	-2.7%	-1.5%
Sheep/beef USD	99.1	2.4%	-6.3%
Forestry USD	100.5	2.0%	-2.5%
Fruit USD	98.0	2.0%	-7.3%
NZD/USD	0.6666	2.0%	-4.5%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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