

Commodities Weekly

For the week ending Friday 8th December



Fonterra removes cream from milk price forecast

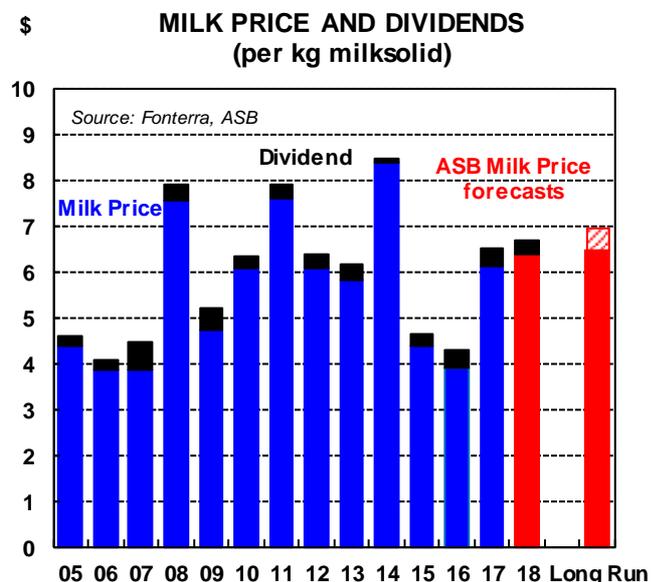
Updated forecast stands at \$6.40/kg

Last week, Fonterra trimmed its 2017/18 milk price forecast by 35 cents to \$6.40/kg largely as expected. This revision came on the back of a circa 10% fall in overall dairy prices since Fonterra’s previous update back in September.

However, the weaker NZD offset some of the dairy price fall. Over the same period, the NZD has fallen by around four cents or 5% against the USD, although the milk price may not reflect the full amount of this fall due to Fonterra’s hedging.

While Fonterra has erred on the side of caution with its milk price forecast, it has been more confident with its payments to farmers. “Our... confidence in demand means that the Board is able to increase the [January] payments... by 10c per kgMS.”

For our part, we stick with our slightly more optimistic forecast of \$6.50/kg. Indeed, we note a hint of conservativeness in Fonterra’s updated forecast. “The lower forecast... reflects a prudent approach to ongoing volatility.” Moreover, dry NZ weather has potential to put upward pressure on dairy prices. Similarly, global demand is firm and the global butter shortage is ongoing. Although, robust EU production is providing some downward pressure on prices.



Week ending 8 December

The ASB Commodity Price Index fell in all denominations for the week ending 8 December. The Index fell 0.7% in both NZD and USD terms.

Weaker sheep/beef and dairy prices drove most of the fall. Lamb, beef and wool prices all fell, while butter led dairy prices lower. In contrast, both whole and skim milk powder posted gains of 1.8% and 3.4%, respectively.

Meanwhile, the NZD dipped 0.7% last week, and has continued to trade near these levels so far this week. As at the time of writing, the NZD was trading at US\$0.6850.

ASB New Zealand Commodity Price Indices As at Friday 8th December 2017

	Index*	Week %	Year %**
Total NZD	107.9	-0.8%	3.1%
Total SDR	95.6	-1.0%	-5.0%
Total USD	88.7	-1.5%	-1.2%
Dairy USD	84.1	-1.3%	-8.7%
Sheep/beef USD	91.8	-2.3%	9.0%
Forestry USD	98.0	-0.7%	1.9%
Fruit USD	91.5	-0.7%	-7.4%
NZD/USD	0.6841	-0.7%	-4.2%

* For all indices 2014 average = 100

** Percentage change since same week last year

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