

Commodities Weekly

For the week ending Friday 7th September

One final cut

Fonterra trims 17/18 milk price one final time; announces first ever annual loss

Fonterra finalised the 2017/18 milk price at \$6.69/kgMS yesterday, one cent down on its penultimate forecast. Including the 10 cent dividend, the cash payout to farmers settled at \$6.79/kgMS; \$0.27 higher than the 2016/17 cash payout of \$6.52/kgMS.

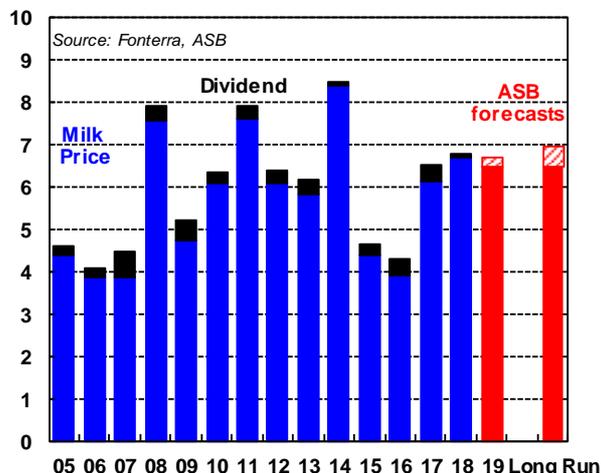
Looking to 2018/19, Fonterra's reaffirmed its milk price forecast at \$6.75/kgMS. Our forecast sits modestly lower at \$6.50/kgMS, at this early juncture in the season.

Linked to this is our modestly higher domestic dairy production outlook. We anticipate 2% production growth this season, while Fonterra expects more modest growth of 1.5%.

Meanwhile, Fonterra also announced weak financial results for the 2017/18 financial year, highlighted by a \$196m net loss after tax.

Earnings per share were reported at 24 cents, down 22 cents from 2016/17. In addition, normalised EBIT fell 22% from 2017/18 to \$902m. EBIT has now fallen for two years in a row, with Fonterra's underlying profitability falling by around a third (\$456m) over this period.

\$ MILK PRICE AND DIVIDENDS (per kg milk solid)



Week ending 7 September

The ASB Commodity Price Index fell 1.1% in USD terms in the week ending 7th September. However, a weaker NZD/USD saw the Index lift a touch (up 0.2%) in NZD terms.

Commodity price weakness in USD terms was broad-based, with all of the main components posting falls. Forestry and fruit prices fell 1.3%, but sheep/beef and dairy weren't far behind (down 0.9% and 0.7%, respectively).

Meanwhile, the NZD/USD dipped last week as US-China trade tensions continued. This week the NZD has regained a little of this lost ground. As at the time of writing, NZD was trading at US\$0.6570.

ASB New Zealand Commodity Price Indices As at Friday 7th September 2018

	Index*	Week %	Year %**
Total NZD	114.4	0.2%	5.0%
Total SDR	97.7	-0.9%	-2.8%
Total USD	89.8	-1.1%	-4.1%
Dairy USD	82.0	-0.7%	-11.7%
Sheep/beef USD	97.6	-0.9%	3.7%
Forestry USD	96.8	-1.3%	-3.6%
Fruit USD	93.4	-1.3%	-4.6%
NZD/USD	0.6536	-1.3%	-8.7%

* For all indices 2014 average = 100

** Percentage change since same week last year

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