

# Commodities Weekly

For the week ending Friday 12<sup>th</sup> January



## Wet, dry and wild

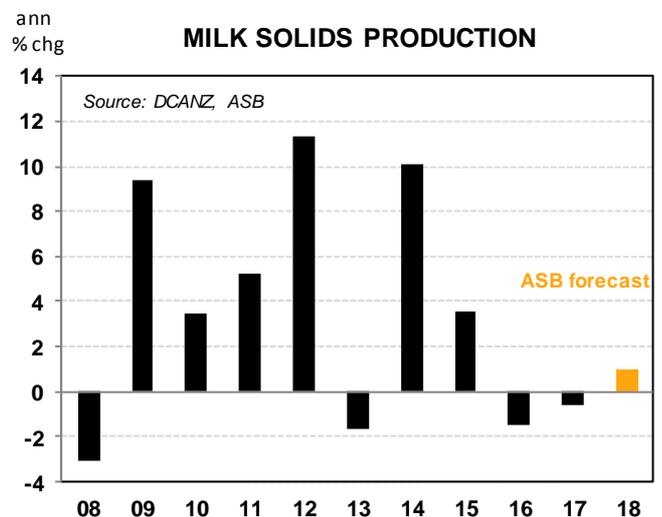
### Dry weather has stalled NZ milk production

**2017/18's wild weather is continuing to throw up surprises for NZ agriculture.** Early in the 2017/18 season, wet weather hampered dairy production, although better weather in late spring saw production rebound.

**Now, it's the turn of dry weather to hamper production.**

Indeed the NZ Government declared an official drought for parts of central and the lower North Island in December. More generally large parts of the country have been dry; accordingly, we expect December milk production (when released) to come in significantly below December 2016.

**As a result, we have cut our nationwide 2017/18 production growth forecast to 1%, from 3% previously.** Fonterra has also cut its forecast aggressively to -3%, from flat previously.



**In the first instance, stalling production will support NZ dairy prices.** This strength reinforces our more optimistic 2017/18 milk price forecast of \$6.50/kg (recall that Fonterra's forecasts \$6.40/kg). However, as pointed out above, **we anticipate that Fonterra's forecast overstates the production weakness.** In particular, recent rain and a supportive milk price are likely to see production rebound later in the season. If we are right, then firmer production later in the season may see dairy prices give back some of their gains.

### Week ending 12 January

**The ASB Commodity Price Index fell in NZD terms in the week ending 12 January.** A 1.2% lift in the NZD against the USD was the main driver of the fall.

**By component, commodity prices were more mixed.** Dairy prices eased in USD terms, while all other components rose. In particular, forestry and fruit prices lifted 1.2% in USD terms

**Meanwhile, the NZD firmed last week continuing its strong run since Adrian Orr's appointment as the new Reserve Bank Governor.** The NZD has maintained this strength this week. As at the time of writing, the NZD was trading at US\$0.7260.

### ASB New Zealand Commodity Price Indices As at Friday 12<sup>th</sup> January 2018

	Index*	Week %	Year %**
Total NZD	105.0	-0.8%	0.1%
Total SDR	97.0	-0.1%	-1.8%
Total USD	91.5	0.4%	4.4%
Dairy USD	83.1	-0.5%	-9.5%
Sheep/beef USD	93.0	0.4%	18.2%
Forestry USD	104.6	1.2%	12.8%
Fruit USD	104.8	1.2%	12.7%
NZD/USD	0.7256	1.2%	4.3%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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