

Commodities Weekly

For the week ending Friday 11th September



Dairy prices show encouraging lift overnight

The ASB Commodity Price was little changed last week. The index shed 0.2% in USD terms, but a slight downward drift in the NZD exchange rate meant that the NZD denominated index fell just 0.1%. The index was up 0.1% in SDR terms. The dairy component of the index was down 0.6% in USD, whilst the sheep/beef component was up 0.5% in USD. Note that our index was calculated before last night's dairy auction.

It was pleasing to see dairy prices firming at the Global Dairy Trade event overnight. Prices had been sliding over the previous three events, and that in turn has put our \$6.75 milk price forecast for the 20/21 season under pressure. Whole milk powder prices were up 3.2%, with an average price US\$2,985/MT overnight, and skim milk powder prices were up 8.4% (albeit on small volumes).

The total volumes of product sold at the last three actions have been down around 10% on year-ago levels. However, with good spring weather and data showing production is up on last year, we don't think buyers will be too worried about availability of product from New Zealand over the coming months. With that in mind, the WMP prices achieved overnight are encouraging.

Fonterra will release its FY20 annual financial results this Friday and will confirm the final Farmgate Milk Price for the 2019/20 season (its last forecast range was \$7.10-\$7.20). In August Fonterra had a forecast range for the 2020/21 season of \$5.90 - \$6.90 per kgMS and can justifiably stick with the same wide range, given the recent price developments.

ASB New Zealand Commodity Price Indices As at Friday 11th September 2020

	Index*	Week %	Year %**
Total NZD	100.3	-0.1%	-7.5%
Total SDR	93.2	0.1%	-5.9%
Total USD	94.9	-0.2%	-3.3%
Dairy USD	93.8	-0.6%	-4.1%
Sheep/beef USD	96.8	0.5%	-8.4%
Forestry USD	90.6	-0.2%	6.2%
Fruit USD	95.1	-0.2%	-5.4%
NZD/USD	0.6671	-0.2%	4.6%

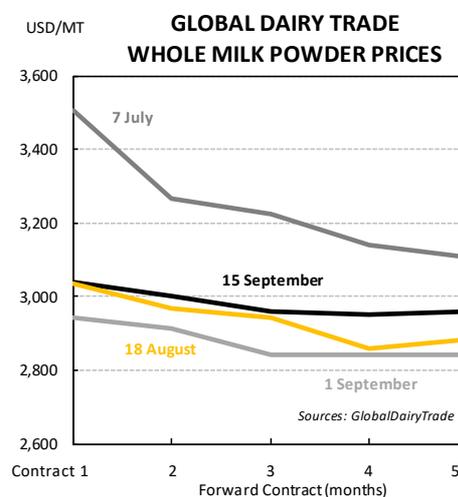
* For all indices 2017 average = 100

** Percentage change since same week last year

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	3.2%	-4.4%	2,985
Skim Milk Powder	8.4%	10.4%	2,889
Anhydrous Milk Fat	2.0%	-22.5%	3,910
Butter	-1.4%	-22.0%	3,282
GDT Price Index	3.6%	3.2%	n.a.

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.10-\$7.20	\$7.15	\$6.75	\$6.50-\$7.50

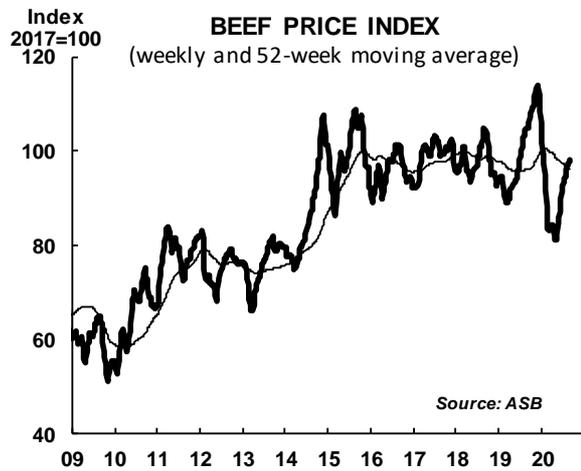
* per kg of milk solids (excluding dividend).



Elsewhere, our index showed a small lift in NZD sheep and beef prices – helped by lower levels of supply, and the slight weakening in the NZD.

Still, last week we highlighted how far prices have dived since this time last year, and that story remains fundamentally unchanged.

Plenty of uncertainties lie ahead, particularly for some cattle farmers, with speculation that the government could make the ban on live cattle exports permanent.



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