

# Commodities Weekly

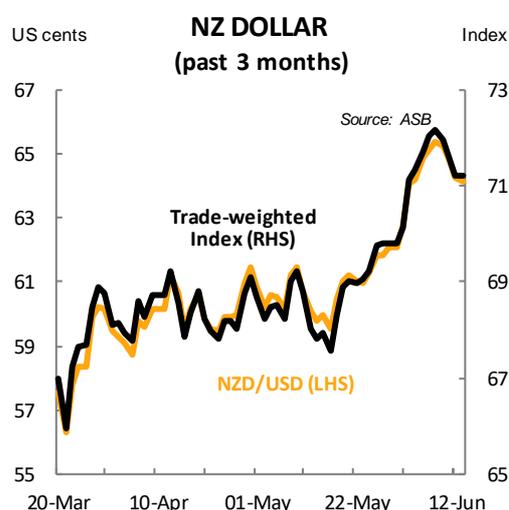
For the week ending Friday 12<sup>th</sup> June



## A bout of volatility returns to financial markets

In last week’s ASB Commodities Weekly report, we talked about how commodity prices and the NZD have been lifting recently as sentiment regarding global growth has improved. That same sentiment had also helped the NASDAQ index of US shares fully recover from its March plunge, and set an all-time high in June.

Late last week we got a timely reminder that market sentiment and the pace of the recovery from the COVID-19 pandemic is not a sure thing. Thursday 11<sup>th</sup> June saw large dips of around 4.0-6.5% in the world’s major sharemarkets. These were the biggest one-day falls since the COVID crisis took hold in mid-March. And the volatility wasn’t just in sharemarkets; over the week Brent crude oil prices fell by 8.4%, recording the first weekly drop since April. FX market volatility also picked up, and the NZD declined around 2% from its recent peak vis-à-vis the USD.



It’s difficult to pinpoint an exact trigger for the change of direction and sentiment. The news wires were generally attributing it to both, the US Federal Reserve’s cautious assessment of the US economy that has been released prior to the drop, as well as fears about a possible second wave of COVID-19 infections in the US. It could just as likely be an overdue pull-back after the rapid rise in shares and commodity prices over earlier weeks. For the ASB Commodity Price Index, the big mover over this time has been forestry prices – with a 9.2% decline in the USD denominated forestry sub-index driving the overall index decline last week.

## GDT prices moving in the right direction this week

Prices moved in the right direction at this week’s Global Dairy Trade event. The whole milk powder index rose 2.2%, with an average price of US\$2,829/MT. The skim milk powder index was up 3.1%, with an average price of US\$2,609/MT.

The cheddar index rose 1.4%, the anhydrous milk fat index was up 0.8% while the butter index was

the only decliner, down 1% this time. Volumes are light this time of the year, but even so, this event’s volumes were 3% down on the preceding event, and 12% down on the same time last year.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	2.2%	-4.3%	2,829
Skim Milk Powder	3.1%	10.3%	2,609
Anhydrous Milk Fat	0.8%	-28.9%	3,993
Butter	-1.0%	-22.1%	3,597
GDT Price Index	1.9%	-0.6%	n.a.

The price gains this week are another step in the right direction for our 20/21 season forecast of \$6.50/kg, but we remain cautious about the outlook. We are hoping to see these prices maintained over the important spring months to gain more confidence.

Fonterra's wide forecast range of \$5.40-\$6.90 is understandable in this environment, and as we saw last week with oil, commodity prices can move fast in an uncertain economic environment.

It is early days for the 20/21 season, but the dairy price gains over recent events are encouraging nonetheless.

	2019/20		2020/21	
	Fonterra	ASB	Fonterra	ASB
Milk Price*	\$7.10-\$7.30	\$7.20	\$5.40-\$6.90	\$6.50

\* per kg of milk solids (excluding dividend).

## Commodity index for the week ending 12<sup>th</sup> June 2020

The ASB Commodity Price Index dipped in all denominations last week, but a lower NZD cushioned the decline when measured in NZD terms. The Index posted a 2.2% decline in USD terms, while the 1.4% NZD dip from over \$0.6500 to 0.6411 vis-à-vis the USD meant that the total NZD index was down only 0.8%.

Forestry prices drove the decline, with the USD forestry index down 9.2% last week. Domestic and in-market prices for export logs have pulled back across the board from May's highs. Compounding the situation for exporters has been the lift in shipping prices, and the firmer NZD over recent weeks. All these developments were behind the forestry index decline within the latest ASB Commodity Price Index. The forestry index is now back to where it was at the start of February.

There's some good news for holders of NZU (New Zealand Unit) carbon credits – the price has hit an all-time high following the Government's price cap increase. Spot prices for NZUs hit \$32 last week.

The NZD ended the week trading just above 0.6400, recovering from Thursday's low of 0.6397, but well off the 0.6579 highs touched before the jarring session of sharemarket volatility.

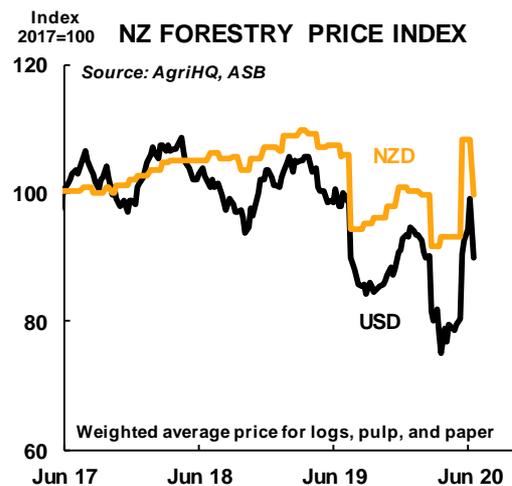
The NZD pull-back during the past week's volatility is what we'd expect when the collective conscience of all the participants in financial markets take a more cautious assessment of the outlook. Riskier currencies like the NZD tend to decline when markets get volatile, and the USD tends to appreciate.

## ASB New Zealand Commodity Price Indices As at Friday 12th June 2020

	Index*	Week %	Year %**
Total NZD	101.7	-0.8%	-6.5%
Total SDR	92.9	-2.2%	-7.6%
Total USD	92.4	-2.2%	-7.7%
Dairy USD	91.3	-0.5%	-9.9%
Sheep/beef USD	86.8	-0.1%	-11.3%
Forestry USD	90.0	-9.2%	-8.1%
Fruit USD	108.5	-1.4%	5.5%
NZD/USD	0.6411	-1.4%	-1.3%

\* For all indices 2017 average = 100

\*\* Percentage change since same week last year



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