

Commodities Weekly

For the week ending Friday 13th August



Wake me up when September begins

Moves in dairy prices have been modest at the latest auction. The headline dairy index gained a modest 0.3%, breaking an eight-auction losing streak. A 1.5% decrease for WMP was offset by gains for other product categories.

On the whole it was a fairly positive auction. After some larger-than-expected falls recently, WMP's descent has slowed, and the contract curve has begun to flatten. That may support the futures market's view that WMP will find a floor just south of \$3,500/MT before too long.

What's more, it was good to see the strength in SMP and fats come to the party and help offset WMP's decline. And as the NZX notes, buyers outside China/North Asia (particularly Africa) have begun increasing their share of purchases at recent auctions. Collectively, those two trends are a signal that while some of the energetic Chinese WMP stockpiling has slowed, broader dairy market dynamics remain supportive.

The NZ spring will be the real test for prices as we enter the peak production months. WMP losses have been in part driven by stronger production data of late, both in NZ and in the Northern Hemisphere. Now that we are entering the peak months, the strength of NZ production will only grow in importance as a swing factor and could drive a bit of further volatility (hence our title). NZ's recent move to COVID Alert level 4 adds a bit of uncertainty into this environment, particularly if its extended. While the agri sector is an essential service, anything that slows the supply chain at the margins or makes buyers a bit anxious will be a positive for prices

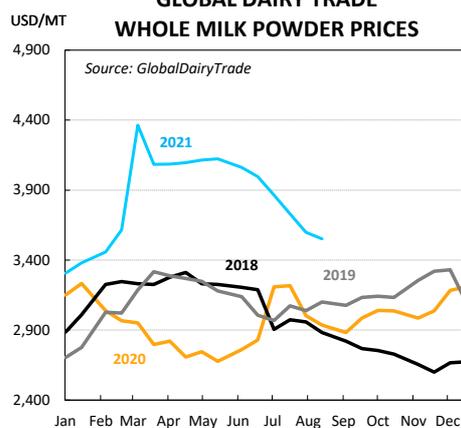
Once again, we emphasise NZ dairy prices remain very high. We sound like a broken record on this of late, but amidst all the week-to-week churn, it's important to remember the key thing: dairy prices are still very strong in a historical sense and a healthy farmgate price for 21/22 is in the pipeline.

	2020/21		2021/22	
	ASB	Fonterra	ASB	Fonterra
Milk Price*	\$7.60	\$7.45-\$7.65	\$7.90	\$7.25-\$8.75

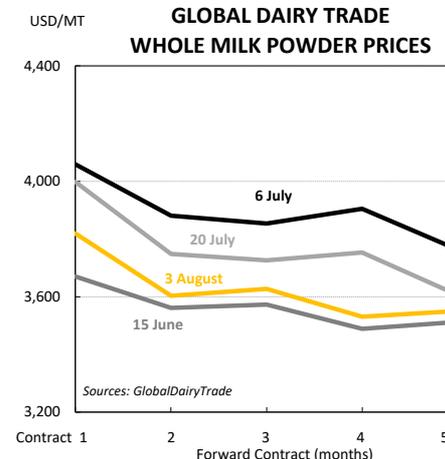
* per kg of milk solids (excluding dividend).

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-1.5%	21.0%	3,552
Skim Milk Powder (SMP)	1.1%	17.7%	3,052
Anhydrous Milk Fat (AMF)	1.5%	50.6%	5,791
Butter	4.0%	41.5%	4,771
GDT Price Index	0.3%	34.9%	n.a.

GLOBAL DAIRY TRADE
WHOLE MILK POWDER PRICES



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ASB Commodities Index

The ASB Commodities Index hit a two-and-a-half-month low in NZD terms last week but remains very strong in a historical sense. Underlying USD prices were little changed at -0.3% over the week, with the continued descent of dairy prices (-1.6%) offset by the speedy growth in meat prices (+1.3%). Notably lamb prices have already surpassed the all-time high they hit last week. A bit of appreciation in the kiwi saw the NZD index down 0.7%.

Over recent weeks, the NZD/USD has been trading in a tight 0.6900-0.7060 range, so it's been underlying commodity prices rather than currency movement driving our index.

ASB New Zealand Commodity Price Indices As at Friday 13th August 2021

	Index*	Week %	Year %**
Total NZD	116.0	-0.7%	14.1%
Total SDR	112.9	-0.1%	21.5%
Total USD	115.6	-0.3%	22.5%
Dairy USD	115.8	-1.6%	21.3%
Sheep/beef USD	122.8	1.3%	30.0%
Forestry USD	110.4	0.4%	25.8%
Fruit USD	101.6	0.4%	5.8%
NZD/USD	0.7039	0.4%	7.4%

* For all indices 2017 average = 100

** Percentage change since same week last

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