

Commodities Weekly

For the week ending Friday 14th May



ASB revises 21/22 milk price forecast to \$8.20/kgms Prices look set to hold up well into next season

Prices broadly held their ground at last night's dairy auction. The overall GDT price index fell a shade (-0.2%), as did WMP index (also -0.2%).

Still the real story is that prices are holding onto their gains and we find ourselves increasingly bullish about the next season. We always felt the odds were against a sharp correction in prices after March's mammoth auction, but the resilience in prices has exceeded our expectations. Notably, this is the fifth consecutive auction in which WMP prices have held above the USD\$4,000/tonne mark.

Consequently, we've changed our view and now forecast a farmgate milk price of \$8.20 per kgms for 21/22. That's a full 70 cents higher than our previous forecast and a remarkably strong result. Indeed, an \$8.20 price would be the second-best result on record.

Once again, there is no change to our \$7.60 per kgms forecast for the current season – it's late in the day now, and something pretty dramatic would need to happen for us to make a change here.

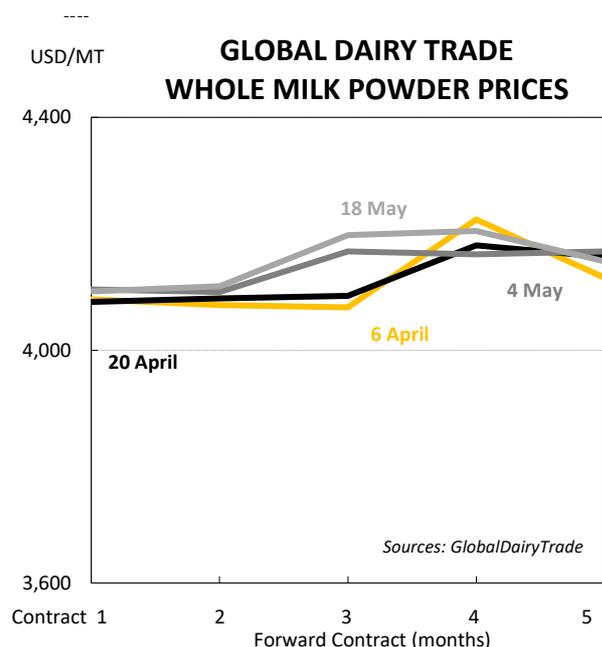
So why the change in our 21/22 view, isn't it pretty bold to lift a forecast by 70c after a single, uneventful auction? Well yes, but there are a combination of factors we think justify such a move.

- All WMP contract terms continue to trade north of USD\$4,000 a tonne, with the September contract trading at a premium. The indications suggest that prices will hold their momentum well into next season, particularly during the crucial months when Fonterra does most of its shipping. The upshot is we reckon

	2020/21		2021/22
	ASB	Fonterra	ASB
Milk Price*	\$7.60	\$7.30-\$7.90	\$8.20

* 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)	-0.2%	51.7%	4,123
Skim Milk Powder (SMP)	0.7%	35.4%	3,447
Anhydrous Milk Fat (AMF)	-0.1%	41.0%	5,730
Butter	-2.2%	29.5%	4,929
GDT Price Index	-0.2%	59.6%	n.a.



WMP prices hold up higher for longer.

- Our prior forecasts saw shipping fears starting to ease from Q3, reducing the need for buyers to secure supply through aggressive purchasing and in turn taking some of the heat out of prices. However, freight indicators show few signs of easing, and high prices for the later contracts might imply buyers are still worried about securing supply further into the future than we anticipated.
- Chinese economic data undershot expectations a little in April, but we still expect consumer spending there to recover further over the course of the year.
- Our model sees a supply response starting to put downward pressure on prices toward the end of the season, but we are still confident demand will outstrip supply.
- We've adjusted our forecast for Fonterra's effective NZD/USD conversion rate. We reckon the co-op's about 56% hedged for the season, and could end up with a rate around the 71 US cents mark – much, much more favourable than it did last time USD dairy prices were this lofty.

As ever, there is an element of educated guesswork for a forecast this far in the future, and we caution that prices could still end up closer to the \$7.50 mark than the \$8.20 mark. There are all sorts of swing factors to consider – an unexpected move by China to ease purchases, or a faster-than-expected supply response. **Still, we feel farmers can be increasingly confident of another strong season.**

ASB Commodities Index

There was some modest easing in the ASB Commodities Index last week, but it remains close to record highs. In USD terms, our index was down 0.7%, led by a fall in the dairy index (-1.2%). Butter prices continued to edge down ahead of this morning's dairy auction. The decline in the dairy index was partially offset by higher meat prices (+0.6%). Over recent weeks, meat prices have begun to tentatively recover ground as the hospitality sector has begun re-opening overseas.

With the NZD/USD also edging down 0.5% over the week, our NZD index was little changed over the week, down just 0.2%.

**ASB New Zealand Commodity Price Indices
As at Friday 14th May 2021**

	Index*	Week %	Year %**
Total NZD	113.1	-0.2%	8.5%
Total SDR	111.9	-0.9%	25.0%
Total USD	116.1	-0.7%	32.5%
Dairy USD	127.5	-1.2%	41.3%
Sheep/beef USD	101.3	0.6%	32.1%
Forestry USD	107.7	-0.5%	19.2%
Fruit USD	121.5	-0.5%	28.2%
NZD/USD	0.7240	-0.5%	22.0%

* For all indices 2017 average = 100

** Percentage change since same week last

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