

Commodities Weekly

For the week ending Friday 16th July



ASB revises 21/22 milk price forecast to \$7.90 kgms

Prices wrongfooted market expectations overnight, falling by 2.9%. The move contrasted with expectations ahead of the event, with the futures market anticipating a modest lift following the news on Friday that Fonterra intended to lower the volumes on offer on the GDT platform. Importantly for farmers, the decline in milk powder prices was particularly marked, with WMP prices down 3.7% and SMP prices down 2.9%.

Beyond the headline moves, the shape of the contract curve is a clearly bearish signal. Over the course of just two auctions, the curve has shifted from being broadly flat (meaning prices are similar across future delivery dates), to showing a marked downward slope. It's a clear sign that prices are now losing momentum as we get deeper into the season and may reflect the fact that stockpiles are now much better covered after the frenzy earlier in the year.

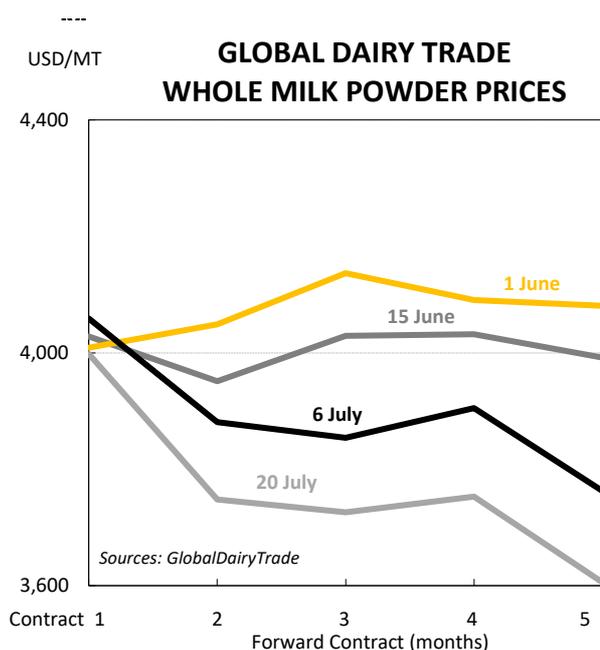
We knew dairy prices wouldn't sustain these heights forever, but prices are falling a bit faster than we'd anticipated. This is now the fourth consecutive auction where WMP prices have fallen between 1.5%-3.5%. And the fact that prices have continued to fall even as Fonterra has reduced the amount of product on offer clearly shows that the demand and supply balance is shifting in the direction of buyers rather than sellers.

The key question is where prices will find their floor, and on that front we are still positive. The surge in delta variant cases overseas has added a bit of uncertainty into the economic outlook, but we still expect the uptick in global demand and ongoing supply chain issues will keep commodity prices supported across the board. And for farmers, the faster-than-anticipated fall in auction prices will be partially offset by a couple of other trends – namely the favourable moves in forward exchange rates over recent months (a positive for Fonterra's hedging) and reports of stronger prices off the auction platform. **All-up, we have lowered our farmgate milk price forecast for the 21/22 season to a still-lofty \$7.90 – but highlight the high margin of error given the menagerie of moving parts.**

	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)	-3.7%	15.6%	3,730
Skim Milk Powder (SMP)	-5.2%	10.7%	2,971
Anhydrous Milk Fat (AMF)	-0.2%	46.4%	5,615
Butter	-0.8%	24.8%	4,419
GDT Price Index	-2.9%	32.8%	n.a.



ASB Commodities Index

The ASB Commodities Index eased a shade in NZD terms last week, but remains only a hair's breadth below record highs. Underlying price moves were scattered, ranging from a sizable 2.7% lift in USD meat prices, to a 1.1% drop in USD dairy prices (prior to this week's dairy auction). We expect to see further gains for meat prices and further easing for dairy prices over the coming months. Forestry prices are holding onto most of their recent gains, despite recent [reports](#) of a big dip in lumber prices overseas (our own index is a weighted mix of logs, pulp and paper). In aggregate, our USD index was broadly unchanged at +0.1% over the week.

Last week also saw the NZD/USD head 0.4% higher, in the aftermath of a hawkish move by the RBNZ and a strong inflation reading. The upshot saw our NZD index up 0.2% in NZD terms.

ASB New Zealand Commodity Price Indices As at Friday 16th July 2021

	Index*	Week %	Year %**
Total NZD	117.0	-0.2%	14.7%
Total SDR	113.5	0.2%	20.2%
Total USD	116.1	0.1%	22.9%
Dairy USD	121.0	-1.1%	23.2%
Sheep/beef USD	116.5	2.7%	25.8%
Forestry USD	110.0	-0.3%	27.6%
Fruit USD	101.3	0.4%	10.6%
NZD/USD	0.7011	0.4%	7.1%

* For all indices 2017 average = 100

** Percentage change since same week last

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