

Commodities Weekly

For the week ending Friday 16th October

GDT prices firming up nicely

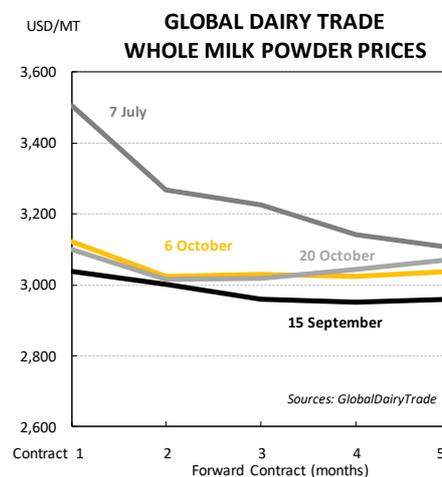
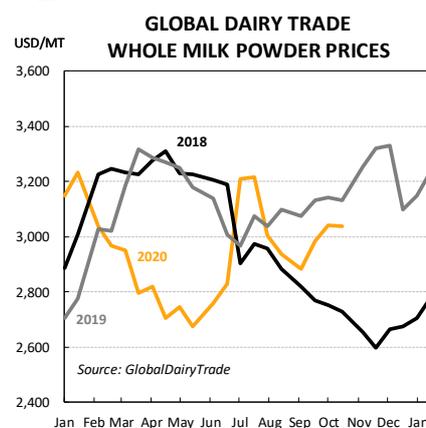
Prices rose again at the Global Dairy Trade Auction overnight. This is the third consecutive auction where the overall index (+0.4%) and the WMP index (+0.3%) have risen, though the lifts at this auction was more modest than at the last. Conversely, there was a steep fall in the lactose price index, which was down 8% - that's notable given the cost of lactose is a variable in the farmgate milk price. It was a 'Groundhog Day' event for volumes, which have been consistently down 9-10% yoy over the last few auctions.

ASB's milk price forecast remains at \$6.75 for the 20/21 season. We now believe the downside risks to this forecast have receded, and the risks are, if anything, moving ever so slightly towards the upside after three decent auctions. Since the last auction, Fonterra has also revised its forecast range, lifting the mid-point to \$6.80, but keeping a wide forecast range of \$6.30-\$7.30.

Fonterra have cited improving demand in China as a driver for the lift in its forecast, and indeed the 'North Asia' region has been strong over recent auctions. We note that WMP production in China is considerably down on last year, whilst domestic demand has proved resilient as the Chinese economy recovers, which is a positive development for exporters. However, with production in New Zealand off to a good start and China already building up a decent stockpile, supply is unlikely to be a concern for buyers, which should keep a lid on prices moving forward.

To that end, the contract curve shows buyers are less worried about securing supply than in earlier auctions. As we noted last week, the curve was quite steep at earlier auctions this year as buyers rushed to secure supply amid all the uncertainty, bidding up the price of the near-term contracts. However, over recent auctions, the curve has been a lot flatter – and seems to be stabilising a shade above US\$3,000 a tonne for all contract periods.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	0.3%	-2.1%	3,037
Skim Milk Powder (SMP)	-0.2%	3.7%	2,851
Anhydrous Milk Fat (AMF)	-0.5%	-19.3%	4,110
Butter	3.3%	-12.0%	3,678
GDT Price Index	0.4%	4.5%	n.a.



ASB Commodities Index

The ASB Commodity Price Index lifted 1.1% in NZD terms last week, as a falling kiwi and rising underlying prices made for a potent combo. The index lifted 0.3% in USD terms, but – in line with recent trends – the gains were distributed unevenly across key commodities, with good lifts for dairy (+0.8%) and forestry (+0.9%), but sheep and beef prices fell another week (-0.9%). A 0.8% fall in the NZD/USD further supported the NZD index, as rising COVID cases and fading stimulus hopes weighed on currency markets.

Our NZD index is now sitting at a five-month high, as prices for many key commodities continue their recovery. The USD index is not far off. Still the impact remains uneven – whilst forestry prices are back up above year ago levels and dairy prices are proving resilient, beef and lamb are still struggling to catch a break.

ASB New Zealand Commodity Price Indices As at Friday 16th October 2020

	Index*	Week %	Year %**
Total NZD	102.9	1.1%	-7.5%
Total SDR	94.7	0.5%	-6.6%
Total USD	96.3	0.3%	-4.3%
Dairy USD	97.2	0.8%	-2.8%
Sheep/beef USD	95.5	-0.9%	-11.7%
Forestry USD	90.8	0.9%	5.2%
Fruit USD	98.5	-0.8%	-11.9%
NZD/USD	0.6605	-0.8%	3.4%

* For all indices 2017 average = 100

** Percentage change since same week last year

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