

# Commodities Weekly

For the week ending Friday 15<sup>th</sup> February



## More strong dairy production numbers in January

### Milk solids up again January, but hot weather worth watching

**Dairy production remained strong over January.** During the month, milk solid production was up a whopping 7.7% on January 2018. This was the largest increase since June 2018. Season to date production is now running 5.6% ahead of 2017/18.

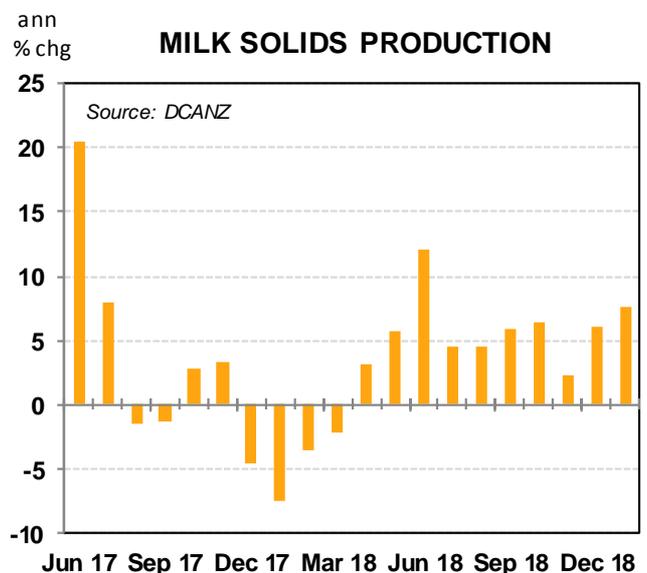
**This season is already on track to shatter records, though we anticipate the hot weather might start to weigh on February production.** As January drew to a close, the country entered a heatwave and record temperatures were recorded across several parts of New Zealand.

**Whilst drought is a perennial concern in summer, this year it's the heat itself that has drawn notice.** As we highlighted last week, elevated temperatures are impacting the behaviour of livestock, with some cows even “too hot to eat.”

**Given that temperatures only peaked towards the end of the month, January’s production data will not have captured the full impact.** We will be closely watching February’s figures (due mid-March), to see if production starts to soften.

**We currently project 5% growth in milk solids production across the 2018/19 season, a shade more bullish than other forecasters.** Next month’s data release may shed some light as to whether this forecast is too optimistic.

**Despite the bumper production season domestically, dairy prices remain robust given constrained supply globally.** Our current 2018/19 milk price forecast stands at \$6.25/kg, although we note some upside to this. Looking ahead to 2019/20, we expect global (and local) supply to tighten further, boosting the milk price to \$7.00/kg.



## Week ending 15 February

The ASB Commodity Price Index slid 0.6% in NZD terms during the week ending 15 February, off the back of a higher NZD/USD. By contrast, the index rose in USD terms, up 1.2% over the week.

All components gained in USD terms. The biggest movers were forestry and fruit, which gained 1.8% each, not quite reversing last week's falls. Dairy prices grew 0.8% amid evidence of a tightening in global supply. Sheep/beef prices were up 0.7%.

The NZD/USD rose last week, as the Reserve Bank's interest rate announcement was not as cautious as markets expected. The NZD/USD has since dropped back slightly over the course of this week, trading at US\$0.6802 as at the time of writing.

## ASB New Zealand Commodity Price Indices As at Friday 15<sup>th</sup> February 2019

	Index*	Week %	Year %**
Total NZD	109.7	-0.6%	0.6%
Total SDR	99.3	1.5%	-0.6%
Total USD	90.4	1.2%	-4.7%
Dairy USD	85.2	0.8%	-5.9%
Sheep/beef USD	87.9	0.7%	-6.3%
Forestry USD	104.8	1.8%	-0.4%
Fruit USD	98.9	1.8%	-10.4%
NZD/USD	0.6865	1.8%	-5.3%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

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