

Commodities Weekly

For the week ending Friday 15th June



Triple down

2017/18 dairy production down 0.6% on the previous season

2017/18 dairy production has ended down on the 2016/17 level.

Moreover, the 0.6% decline is the third season in a row that production has fallen. **By our records, this is the first time that that has occurred.**

All things considered, **this season's production result could have been much worse.** Indeed, the season-end fall of 0.6% was modest considering production was down 1.3% on a season-to-date basis at one stage. Recall that the spring was marred by very wet weather, and drought followed in some parts of the country over summer. Production then rallied to finish the season as the weather improved.

Soft production season has likely supported dairy prices over this season, particularly in late summer and autumn. It likely contributed to the 20-cent per kgMS lift in the Fonterra farmgate milk price on 23 May.

Looking at 2018/19, we have pencilled in a 2% increase in dairy production compared to the previous season. The healthy milk price outlook to should support production but our forecast is contingent on a return to more normal weather patterns. Uncertainty around the eradication of Mycoplasma Bovis pose downside risks to this forecast.

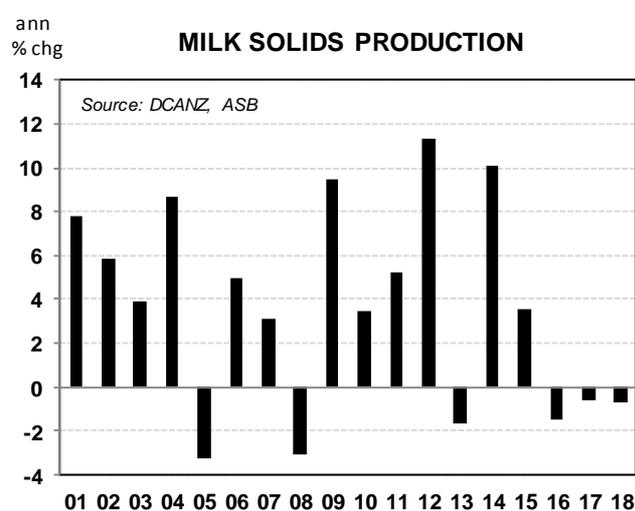
Week ending 15 June

The ASB Commodity Price Index dipped 1.3% in USD terms in the week ending 15th June. This fall was offset by a weaker NZ dollar, with the Index effectively flat in NZD terms.

Softer dairy prices led the commodity price fall in USD terms.

Indeed, butter and whole milk powder prices fell 4.1% and 1.6%, respectively. Moreover, dairy prices softened further at this week's dairy auction, where prices fell 1.2% overall.

The NZD has continued to weaken as US-China trade concerns have seen the US dollar strengthen. As at the time of writing, the NZD/USD was trading at **0.6870**.



ASB New Zealand Commodity Price Indices As at Friday 15th June 2018

	Index*	Week %	Year %**
Total NZD	114.2	-0.1%	6.7%
Total SDR	102.8	-0.7%	0.7%
Total USD	95.3	-1.3%	2.9%
Dairy USD	92.6	-1.3%	-0.1%
Sheep/beef USD	95.6	-0.6%	3.2%
Forestry USD	102.4	-1.2%	1.0%
Fruit USD	97.1	-1.2%	2.7%
NZD/USD	0.6950	-1.2%	-3.6%

* For all indices 2014 average = 100

** Percentage change since same week last year

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