

Commodities Weekly

For the week ending Friday 17th July



Whole milk powder prices hang on to recent gains

Whole milk powder prices (WMP) lifted 14% the 7th June Global Dairy Trade (GDT) event, and hung onto those gains at the latest auction overnight, with the WMP index lifting 0.6%

As we saw last time, the price strength was in the near-term contracts, and prices tail off further out. Other prices softened at this event, with the skim milk powder index down 0.5%. And anhydrous milk fat prices as well as butter prices also softened.

Overall, we are encouraged by the recent recovery in WMP prices, but we aren't baking the full lift or the US \$3,218 weighted average price into our latest forecast for the 2020/21 season, as tabled to the right, and discussed below.

GlobalDairyTrade Auction Results - 21 July 2020

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	0.6%	5.9%	3,218
Skim Milk Powder (SMP)	-0.5%	6.1%	2,680
Anhydrous Milk Fat (AMF)	-2.8%	-30.8%	3,870
Butter	-4.9%	-21.1%	3,533
GDT Price Index	-0.7%	11.4%	n.a.

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.10-\$7.20	\$7.15	\$6.75	\$6.50-\$7.50

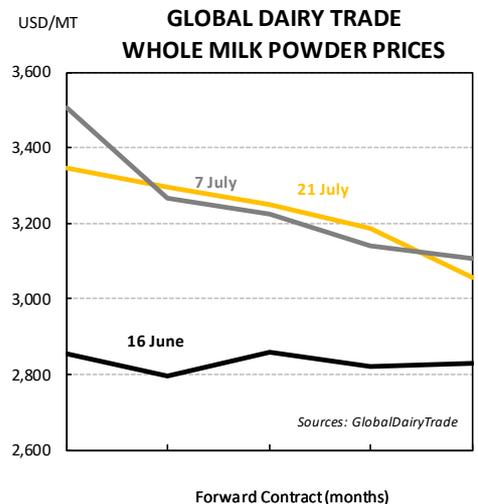
* per kg of milk solids (excluding dividend).

Fonterra and ASB's latest forecast adjustments

Last week Fonterra revised both its 2019/20 and 2020/21 milk price forecast ranges. The 2019/20 forecast range has narrowed to \$7.10 - \$7.20 per kgMS, a 5c drop for the midpoint. Within the press release Fonterra Chairman John Monaghan said the narrowing and lowering of the 2019/20 milk price forecast is the result of a strengthening NZD/USD over the past two months. Over recent months the NZD/USD has risen from the high-50's to the mid-60's, and trades just above 0.6600 at the time of writing. At this time of the year, ASB adopts the midpoint \$7.15 as our forecast for the milk price for the season gone.

Turning to the upcoming season, Fonterra's 2020/21 forecast range has narrowed from \$5.40 - \$6.90 to \$5.90 - \$6.90. The midpoint, off which farmers are initially paid, has increased to \$6.40 from \$6.15, an encouraging development.

Following the latest GDT result overnight, we have lifted ASB's forecast for the 2020/21 season from \$6.50 to \$6.75. We are encouraged by the prices at recent GDT events, but are putting some of the strength down to buyers adding



some padding to stocks as a risk management strategy given the acceleration in global COVID-19 cases and increased potential for logistics disruption. This behaviour is evidenced by the strength in near-term WMP prices, which are significantly higher than the longer-dated prices at the last two GDT events (shown in the chart above).

If this proves to be the case, we'd expect a price adjustment lower in the coming months, and our forecast takes this into account. In addition, we think the risk is the NZD firms over the year ahead. Although Fonterra will have significant hedging in place already, our bias for the NZD is another reason to keep our forecast slightly lower than the latest dairy prices imply.

Fonterra's media release pointed to encouraging signs that Chinese dairy demand is recovering. And last week's Chinese data releases also point to China getting back onto its feet after its lockdown at the start of the year. Q2 GDP rebounded 11.5% for the quarter (after falling 9.8% in Q1), putting the economy 3.2% up from its year-ago level. While this is encouraging, there are still risks to the Chinese outlook, as well as the outlooks for other key economies.

Accordingly, although we have lifted our forecast, we concur with Fonterra advising its farmers to continue budgeting with caution. Recent developments have been encouraging, but it is still very early days in the season, and there is even more uncertainty about the outlook than usual.

Commodity Prices for the week ended 17th July

The ASB Commodity Price Index rose 0.8% in NZD terms over the week ending 17th July, boosted by a 0.6% decline in the NZD vis-à-vis the USD.

The ASB index posted a 0.2% lift in USD terms, with the dairy index gaining 3.3% last week. Lamb, beef and wool prices all rose in NZD terms last week, helping the USD index gain 0.3%, despite the USD's appreciation.

The forestry index declined 6.7% last week. This component of the index is calculated monthly (the weekly changes typically reflect currency movements).

Log prices have been on a wild ride over the past year or so, with the NZD denominated index falling over 16% by early 2020 from an all-time high only a year earlier. Prices subsequently recovered significantly in May, only to decline again over June.

The index is slightly above its 10-year average in NZD terms, as shown in the chart to the right. Local timber demand remains solid, reflecting the resumption of construction activity over recent months.

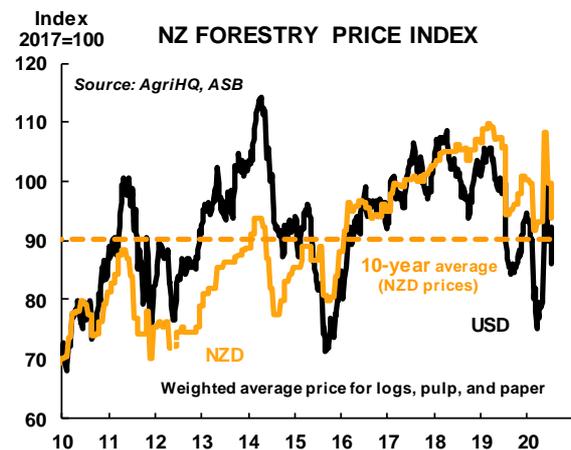
In contrast, the situation for log exports remains less certain, and wharf gate prices have declined over the past month.

ASB New Zealand Commodity Price Indices
As at Friday 17th July 2020

	Index*	Week %	Year %**
Total NZD	103.2	0.8%	-0.9%
Total SDR	95.7	-0.1%	-4.6%
Total USD	95.7	0.2%	-4.2%
Dairy USD	98.2	3.3%	-1.1%
Sheep/beef USD	92.6	0.3%	-12.7%
Forestry USD	86.1	-6.7%	-4.1%
Fruit USD	107.4	-0.6%	6.3%
NZD/USD	0.6543	-0.6%	-3.3%

* For all indices 2017 average = 100

** Percentage change since same week last year



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