

# Commodities Weekly

For the week ending Friday 18<sup>th</sup> January



## Dairy production still on record-setting pace

After a strong December result, we continue to expect 5% growth this season

**So far, 2018/19 dairy production has been very strong.** In the December month, production was 6.1% higher than 12 months ago. For the season to date, production is running 5.2% ahead of the 2017/18 season.

**We think there's more to come.** Relatively healthy soil moisture levels suggest that production should kick on over the next few months. With that in mind, the risk of drought derailing production later in the season continues to recede.

On this basis, **we can reconfirm our 2018/19 season production growth forecast of 5%.** Indeed and as we have stated previously, this season is comfortably on track to set a new record. Note we are more bullish than many other forecasters who are generally forecasting nationwide production growth in the 3% to 4% range.

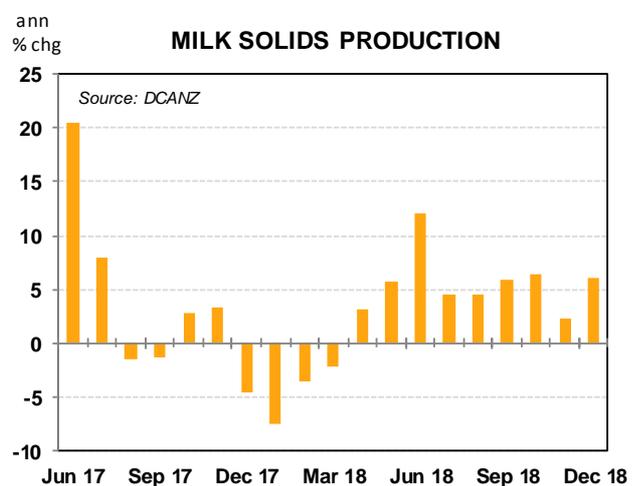
However, our more bullish production forecast translates into a more careful milk price view. Several other forecasters have lifted their Fonterra milk price to the middle/upper end of Fonterra's \$6.00/kg to \$6.30/kg forecast range. **In contrast, we are sticking with our 2018/19 Fonterra forecast of \$6.00/kg, for now, and suspect the recent run of solid dairy auction results will soon run out of steam.**

### Week ending 18 January

The ASB Commodity Price Index posted solid gains in the week ending 18 January. The Index lifted 3.0% and 1.6% in NZD and USD terms, respectively.

**Dairy prices drove most of the gains in USD terms, consistent with the firm dairy auction result.** Skim milk powder prices surged nearly 10% over the week. Forestry prices also lifted, whereas Sheep/beef and fruit prices fell.

The NZD/USD dipped last week as positive US economic data lifted the USD. This week the NZD/USD has continued to trade in a tight range. As at the time of writing, **the NZD/USD was trading at US\$0.6770.**



### ASB New Zealand Commodity Price Indices As at Friday 18<sup>th</sup> January 2019

	Index*	Week %	Year %**
Total NZD	109.6	3.0%	5.1%
Total SDR	97.1	2.0%	0.6%
Total USD	88.8	1.6%	-2.4%
Dairy USD	82.3	3.8%	-1.0%
Sheep/beef USD	87.9	-0.6%	-5.5%
Forestry USD	103.0	0.7%	-1.6%
Fruit USD	101.9	-1.3%	6.5%
NZD/USD	0.6743	-1.3%	-7.1%

\* For all indices 2014 average = 100

\*\* Percentage change since same week last year

**ASB Economics & Research**

Chief Economist  
Senior Rural Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Economist  
Data & Publication Manager

Nick Tuffley  
Nathan Penny  
Jane Turner  
Mark Smith  
Chris Tennent-Brown  
Kim Mundy  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

(649) 301 5659  
(649) 448 8778  
(649) 301 5853  
(649) 301 5657  
(649) 301 5915  
(649) 301 5661  
(649) 301 5660

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