

Commodities Weekly

For the week ending Friday 19th October

Dairy production set for new record high

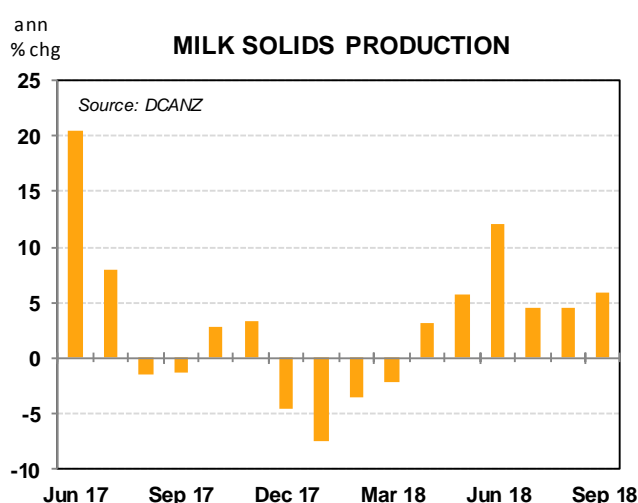
After three seasons of declines, production to date is 5.6% ahead of last season

The 2018/19 dairy production season has started with a hiss and a roar. Data published this week show that for the season to September, production is 5.6% ahead of last season.

Some of the reason for the healthy production numbers in annual change terms is that last season's growing conditions were so poor. Indeed, at different times last season, weather was either too wet or too dry in some parts. In contrast, this season so far, the weather and thus growing conditions have been favourable, helping production start strongly.

Farmers have also been in position to take advantage of the favourable weather. In particular, farm cashflows are positive. Accordingly, farmers are spending more on pasture maintenance (via fertiliser application) and on animal health. This spending is helping boost production per cow.

With all this in mind last week, we doubled our 2018/19 production growth forecast from 2% to 4%. Indeed, after three seasons of declining production, production is on track to set a new record high. But extra milk also means a lower milk price forecast – so last week, we also trimmed our milk price forecast by 25 cents to \$6.25/kg.



Week ending 19 October

The ASB Commodity Price Index lifted 1.3% in USD terms in the week ending 19th October. However, in NZD terms, the Index was unchanged, with a 1.3% rise in the NZD/USD offsetting the Index gain in USD terms.

The commodity price gains in USD terms were broad-based. Forestry prices led the gains, rising 3.3%, while dairy prices increased 1.3%. The other two major Index components, sheep/beef and fruit, also posted gains.

The NZD/USD rose last week following strong New Zealand inflation data. The NZD/USD has drifted lower this week. As at the time of writing, the NZD was trading at US\$0.6520.

ASB New Zealand Commodity Price Indices As at Friday 19th October 2018

	Index*	Week %	Year %**
Total NZD	112.2	0.0%	2.5%
Total SDR	97.1	1.6%	-4.1%
Total USD	88.9	1.3%	-5.7%
Dairy USD	80.5	1.4%	-12.7%
Sheep/beef USD	93.4	0.4%	-1.8%
Forestry USD	97.6	3.3%	-3.0%
Fruit USD	96.3	1.3%	-6.3%
NZD/USD	0.6594	1.3%	-8.0%

* For all indices 2014 average = 100

** Percentage change since same week last year

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