

Commodities Weekly

For the week ending Friday 21st February

COVID-19: one step forward, two steps back

Fonterra reaffirms milk price forecast, but coronavirus outbreak goes “global”

It’s been a case of one step forward, two steps back this week with regard to the coronavirus (COVID-19) outbreak. Indeed, just when it seemed that the outbreak was beginning to settle in China, the outbreak has spread rapidly to Europe, the Middle East and other parts of Asia.

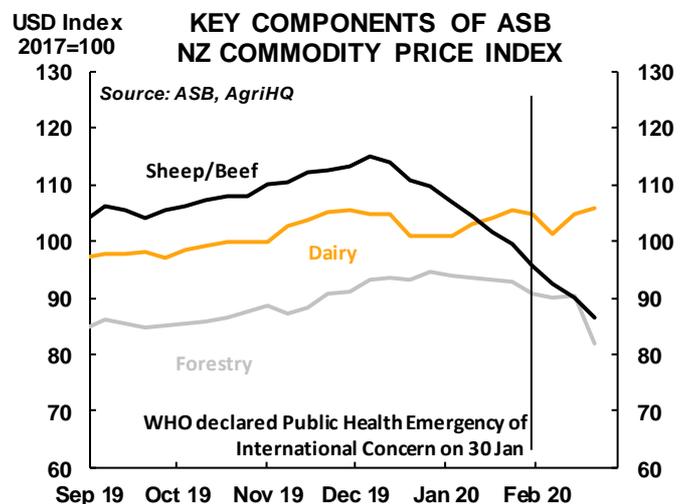
Similarly, for NZ commodities there has been good news and bad this week. The good news has largely come from the dairy sector, with Fonterra reaffirming its 2019/20 milk price forecast range of \$7.00-\$7.60/kg as well as its earnings guidance. Encouragingly, Fonterra also stated: *“There has been a slow-down in processing... at ports. [Importantly though], our product is continuing to be cleared by customs and quarantine officials.”*

This announcement fits with our view that the key dairy sector will be modestly impacted by the coronavirus.

Recall that we revised our 2019/20 milk price forecast down by a relatively modest 10 cents to \$7.40/kg a little over a week ago on the back of virus-related disruptions.

However, while the dairy sector is proving resilient, the forestry and meat sectors are bearing more of the outbreak’s brunt. Notably, the ASB Commodity Price Index shows a 9.4% slide in forestry prices in USD terms this week (note this is the first forestry price update to the Index since the outbreak as forestry prices are updated monthly). In addition, meat prices slid a further 3.9% last week, taking the fall in the month to date to 9.5% (note some of that fall will be seasonal and drought-related too).

Looking at the Index as a whole, the fall over February has been a relatively modest 3.7% in USD terms. This modest fall reflects dairy’s dominance on the Index and dairy’s relative resilience. We also note that the NZ dollar has fallen, supporting commodity prices in NZD terms. Nonetheless, the rapid spread of the virus beyond China poses new and different risks to NZ commodity prices and thus requires ongoing vigilance in coming weeks, if not, months.



ASB New Zealand Commodity Price Indices
As at Friday 21st February 2020

	Index*	Week %	Year %**
Total NZD	107.6	-0.9%	5.4%
Total SDR	98.7	-1.9%	-0.2%
Total USD	96.9	-2.2%	-2.3%
Dairy USD	105.8	0.9%	9.9%
Sheep/beef USD	86.6	-3.9%	-10.1%
Forestry USD	81.8	-9.4%	-21.9%
Fruit USD	109.3	-1.4%	4.1%
NZD/USD	0.6346	-1.4%	-7.3%

* For all indices 2017 average = 100

** Percentage change since same week last year

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